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With The Editors

Informed Investors

If the World War period with its widely distributed Liberty Bonds is credited with introducing the idea of security investment to the general public, and if the middle and late twenties popularized the idea of security speculation, then the thirties might be properly characterized as the period of expanding education on the subject of securities.

No one could occupy our job, with its numerous contacts among security holders of all degree, without being impressed with the gains the public has made in recent years in knowledge pertaining to investments.

Though markets have been dull and public interest has frequently been termed "at low ebb"; though the erratic markets of the past five or six years might well be thought permanently to discourage the quest for information, our mail and our interviews do not bear this out. Indeed we find people vastly better informed on their holdings, or their contemplated transactions, than they were ten years ago.

In part this is a result of more complete and revealing corporate reports, as well as more information on industrial developments and a wider interest in economic subjects and business statistics. Political developments of recent years have emphasized that such things are of more than academic interest. A broad understanding of them is known to be essential to safeguarding holdings, the preservation of income or the recouping of losses. Years of difficult times have made it obvious that successful investment is a complex game, in which it is necessary to know all the rules and latest developments.

The trend of the times in investment education is well illustrated in a recently published will in which a father provided that his two daughters were to come into their full inheritance only after they had satisfied the trustees "that they understood the principles of sound investment . . . (they) must show that they have a practical knowledge of such principles, permanently understood and remembered, and not a mere temporary committing to memory of some book."

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Tapping a New Source of Recovery

By Thomas L. Godey

American Telephone's Changed Outlook

Is the $9 Dividend Safe?

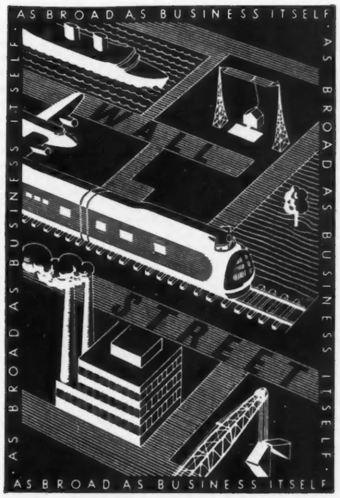
By J. C. Clifford

Courtesy Goodyear Tire & Rubber Co.

A typical farm picture used to be man, mule, plow. Now it is a man driving a rubber-tired tractor—a man not as well off as formerly (who is?), but still a vital cog in the workings of our economy. Here the tires happen to be Goodyear, whose profits have recovered nicely as detailed in our article on page 278. The driver's status and outlook as a customer of American business are analyzed in a special article on page 275.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* : Laurence Stern, *Managing Editor*



Questions of the Day

What's the matter with the United States Senate? In it there used to be the majority of our high-minded, patriotic statesmen. Now it's apparently more spendthrift and more Leftist than the House.

Senators are elected for six years, Representatives for only two years. All members of the House have an election show-down coming next year, while only one-third of the Senators have near term election worries. The character of recent House legislation, especially the restrictions written into the W P A and TVA appropriation bills, clearly reflects the sobering pressure of a conservative drift in American public opinion. Politicians veer with the wind. The same wind now pushing more and more House Democrats gradually to the right will eventually bend the Senate or send many Senators back to law practice.

Why is Great Britain so timid about resorting to economic reprisals against Japan?

There are several reasons: 1. the Chamberlain government, to put it politely, is inherently cautious, slow-moving. 2. Britain's major worry this summer is what Hitler may or may not do, and for this reason she cannot risk a spreading quarrel in the Far East if it can possibly be avoided. 3. Economic reprisal is nothing less than economic war, a dangerous weapon not unlikely to backfire as the British learned in the humiliating lesson taught by the failure of their efforts to halt Mussolini's Ethiopian conquest by this method.

In recent years the income from my safest investments has been cut over one-fourth by calls and refundings. Obviously this is not a good thing for me, since it leaves me less to spend and re-invest—yet we are told the New Deal cheap money policy is a good thing for the country. How come?

You are a capitalist; we might almost call you an economic royalist. The terms you have heard in profusion over the last several years were invented to fit you, although you may not have realized it. Wholehearted backing of the new fiscal policies requires not only that you solve the problem of low interest rates by ceasing to save, but that you get into debt as quickly as possible in order to take advantage of the unprecedentedly cheap money available. As for "spending and re-investing" your income, as you quaintly put it, the problem is non-existent. Spend your borrowings and call it investing. Once the savings of the country can be eliminated in this way and we all become borrowers, the demand for credit will be so great and the supply so small that interest rates will inevitably rise. Since firming money rates accompany prosperity, it is self-evident that this method will bring it quickly to pass.

Why is so little said, and nothing done, about monopolistic labor union practices which are probably more prevalent than monopoly in business?

Elementary, sir! The labor unions represent millions of voters and the union leaders, by and large, are skilled and effective lobbyists. Thus we see the Department of Justice launching a new monopoly drive on the building industry with the flat charge that prices of materials are excessive but with only the mildest and most cautious hint that it might possibly be worth while to have a look at certain labor "restraints." In various fields a closed-shop union, rather than the potential employer, has arbitrary power to determine whether any given individual gets a job. In some unions initiation fees rank with those of exclusive private clubs and are manipulated to preserve monopoly. The Administration has occasionally hinted at action. Wanna bet?

The Trend of Events

BRITAIN CHALLENGED AGAIN . . . Several things of importance to the world that we know are involved in the Tientsin "incident" which the Japanese have manufactured. They include British prestige not only in the Far East but throughout the world; the future status of extra-territoriality in China for *all* countries—including the United States—now having such rights; and a new test of Britain's recently firming will to resist both diplomatic blackmail and military aggression.

If the Japanese army forces the British to retreat in this instance it will merely be prelude to more demands calling for more retreats or, finally, for determined resistance. In the final analysis force respects only equal or greater force in the world today. Since Britain, anxiously watching Middle Europe, is not yet prepared to match Japanese force in the Orient, her effort to temporize and to out-bluff the Japanese, with the moral aid of our own State Department, is understandable but not too promising because Japanese policy now is being forced by her army "hot heads."

British long range strategy is obvious. Chamberlain is bending every effort to avoid European war this summer, to make Britain strong enough to command the European balance of power thereafter and, by 1942, to have a Far East force capable of halting the Japanese march. If he succeeds, temporary loss of British "face" in China, in India and in Egypt may not be irreparable. In contrast, Japan is being rapidly bled white by the unprofitable adventure in China and at most can have only another year or two within which to recover "face" or lose it permanently. Seldom has the balance in world power been more precarious. If Japan touches off an explosion in the East, Hitler would most likely seize the opportunity to move in central Europe. If Hitler strikes in Europe this summer, on the belief that additional time would run fatally against him or in sheer desperation, the Japanese will certainly strike in the East.

We yearn to be aloof from all this but the stark reality is that we can not be. We are tied to it psychologically and materially. In economic might alone we hold the ultimate balance of world power. It is possible that positive use of this power might avert a world war. It is possible that refusal to use it could actually induce war by encouraging the aggressor nations to believe they could win a war in which we remained aloof. So examined, paradoxical as it seems, the decision this summer may not after all be made in Berlin or Tokio but in Washington. Nobody in this country will watch the Senate's action on the neutrality bill in the weeks just ahead with more interest and concern than Hitler, Mussolini—and the Japanese.

MORE OF THE SAME . . . Dope is dope, whether it be morphine or cocaine. The vast new pump priming program proposed by President Roosevelt differs only slightly in form and not at all in substance from the medicine which we have been taking in large doses for six years—and which has failed to produce either sustained or complete economic recovery.

It is self-evident that something is wrong with the pump which the New Deal has so long and vainly tried to prime. Whatever the primary reasons, the defect is absence of capitalist confidence, lack of normal private investment, lack of the venture spirit. If half of the political ingenuity applied to devising pump priming schemes during these six disappointing years had been concentrated on a determined effort to find ways of *repairing* the pump we would be further along the recovery road.

Most significant is the fact that the new program is not put forward as an emergency measure. Mr. Roosevelt apparently has accepted the philosophy of those who believe private initiative can never again play its pre-1929 role in America. What he proposes is the direct, even though partial, substitution of public enterprise for private enterprise in the general field of investment. We think the President is mistaken in his view that no competition with private enterprise is involved. We think he is over-optimistic in his assumption that the major part of this program will be genuinely self-liquidating.

The limits imposed can carry no conviction. Each previous lending-spending program has had stated limits as to amount of funds, but each has been followed very soon by a new splurge. The longer we depend upon this national philosophy of increasing Government intervention in our economy the harder it will become either

to call a halt or turn back. It is already taking us dangerously far along the road to state capitalism. If it is again endorsed by a majority of the American people in the 1940 election their vote could hardly be other than a death sentence for traditional American capitalism and a mandate for transition to an order in which the State and the economic system are virtually one and the same.

UNDERWRITING OVER-CAPACITY . . . Loans to small business by private agencies, guaranteed at least 90 per cent by the Government, sound like a perfect way to put idle capital to work in the right places by removing the element of fear. With such backing money could be kept cheap, and it could be directed to spots where it would go immediately to work. The "strike of capital" we hear about would be broken.

What else would happen? Take six manufacturers of low-priced jewelry in the Providence region. Five are moderately prosperous and well-financed; the sixth is on the downgrade, pinched by previous losses and gradually being forced out of business. This manufacturer applies for one of the new loans with which he buys modern equipment, installs new lines, steps up production. With the more efficient machinery and the increased volume his costs go down to the point where he can profitably undersell his competitors. Slow and certain methods will be unnecessary for him since he is gambling other people's money on an immediate comeback. The weakest unit thus becomes the strongest, a menace to the five who are trying to do business on the capital and credit they have built up out of profitable operations in the past.

What is almost certain to follow is that not one but six jewelry concerns will use borrowed money to modernize and expand. Competitive advantages will remain unchanged once the first confusion is over. The one big change will be in the capacity of that region to produce low-priced jewelry, and unfortunately there is no reason to believe the demand for the product will be affected in the slightest. With a third of the companies able to produce as much as they all formerly produced, there are likely to be four bankruptcies in the courts within a short time instead of the one previously looming. Once over-capacity is created only a very painful process can correct the situation. If the Government is to underwrite this kind of expansion it should expect the consequences to follow inevitably.

RISING RAYON TIDE . . . Authoritative trade estimates put world production of rayon last year at 1,948,000,000 pounds, including rayon yarn and rayon staple fibre. Despite the fact that 1938 was a year of business reaction in most major countries, this was an increase of approximately 7 per cent over the total for 1937 and of 48 per cent over 1936. The more one ponders these figures the more impressive they seem.

Unlike cotton, in which variations of output are normally due more to the vagaries of the weather than to changes in actual consuming demand, rayon is a manufactured product in which production expands closely in line with consumption. No doubt rayon has tapped some new markets not directly competitive with cotton, but there is no question but that it is displacing cotton in older markets. Here is a synthetic material gaining ground even in times of uncertain business conditions, while the exact reverse is true of both cotton and silk.

With synthetics increasingly commanding the textile field, it should be obvious that superficial political remedies for the ailment of the cotton South are worse than useless. Whatever the solution—and there may be no pleasant one—it certainly can't be measures which tend increasingly to put cotton at a competitive disadvantage with synthetic fibres by artificially supporting its price. The chief reason for the remarkable expansion in rayon consumption is the continuing long term decline in its cost.

SHARING PROFITS . . . The principle of giving labor a stake in the earnings of industry makes an immediate appeal and it has to its credit several well-known successes. Nevertheless the report of the Senate Finance subcommittee expressing the opinion that profit-sharing may be a solution for many labor troubles is somewhat on the optimistic side. The trouble is that like so many other methods it works beautifully when times are good and payrolls are on the rise anyway, but when costs must be reduced through smaller wages or shorter hours the shoe pinches no matter what kind of a shoe-horn is used.

Nothing so far suggested can get around the fact that the economic cycle means variations in payrolls and that decreases are unpleasant. An enterprise with a long, gradual business uptrend would get good results with a profit-sharing plan, or any arrangement which bettered wages. The longer the uptrend, though, the harder the blow when the time comes to start in the other direction.

The one best recommendation for profit-sharing is the opposition of many labor leaders. When it works well it makes for peaceful cooperation between management and workers, with a consequent loss of interest in unions. Wherever labor can be given a feeling of participation in the business on a fair basis of sharing the profits the net result must be better for both employer and employee. The mistake to be avoided is in expecting too much from what is at best a palliative for the problem everyone faces when incomes decline.

Summer Market Outlook

The foreign news points to probable development of another European crisis between now and September. Despite favorable domestic factors, we think it prudent to defer new purchases and to lighten commitments in any periods of rally.

BY A. T. MILLER

THE market continues to baffle the bears and disappoint the bulls. Reaction from the June 10 high lasted only four trading sessions, developed no significant momentum and took the volatile Dow-Jones industrial average down but 5.73 points at worst. This has been followed by a rally amounting, at this writing, to approximately 3 points but thus far equally lacking in convincing breadth and momentum and showing some signs of faltering.

On the encouraging side a sprinkling of issues make new highs daily. While this is confined chiefly to stable income equities, a few stocks of cyclical type show ability to come to life. On the other hand a substantially greater number have made no progress for a month or six weeks, notably steels, coppers, rails, farm equipment, aviation, office equipment, oil, utilities, most motors and most in the building materials group.

After eleven weeks of irregular advance in the averages from the low of April 8, making up more than half of the March-April decline, the market continues to exhibit a stubborn reluctance to submit to anything more than small technical reactions. If it could shut its eyes to the foreign field, reckoning only on the domestic business and political developments it would probably have no trouble in extending the April-June upturn into a substantial summer rise in line with normal seasonal precedent. Even in the face of sub-surface European fears—assuming no imminent crisis—there is a chance of further rally carrying above the June 10 high, but it would merely invite another test of reaction if it failed, as have the rallies of the past month, to develop more breadth and activity.

We are 100 per cent confident that the down swing of March-April was not the phenomenon of an economic bear market, by which we mean a bear market geared to the prospect of business and financial deflation. We are equally confident that it would take another very severe war scare to threaten the April 8 average lows. Unfortunately this is not the whole story. We had a bear market in 1917 wholly unrelated to the economic trend which was favorable throughout the year. It is self-evident, we think, that the two severe reactions witnessed within the first four months of this year were precipitated by European developments.

Putting the best light on the matter, the fact is that anyone weighing the problem of timing intermediate trading or investment purchases must face the risk that a word from Hitler can at any time send the market tumbling down. There is the further fact that, even without nearby bad news from abroad, uncertainty and fear of possible European developments within the period July-September very likely will restrain any summer advance.

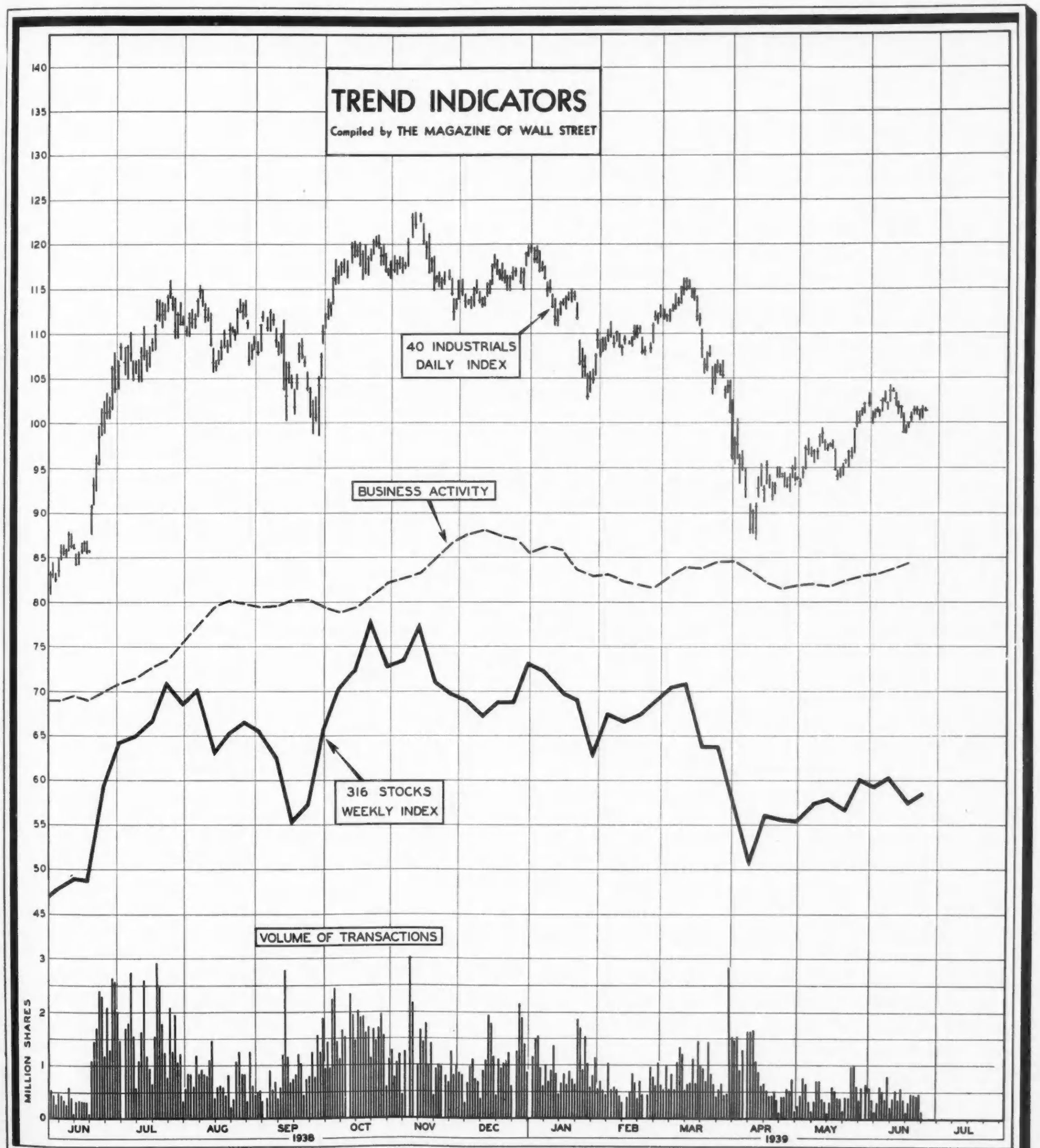
At the best recent level the industrial average was approximately 19 points above the April low and 13 points under a resistance level bettered only once—briefly and modestly—during the past year. Quite possibly the question of bull or bear cycle is beside the point in the present setting. While the market never stands still, sometimes, for disconcertingly long periods, it manages to achieve substantially the same effect by wandering up and down without getting anywhere in particular. We think the probability is a trading range pattern unlikely in the near future to better the 140 high in the industrial average by any significant margin and unlikely to penetrate 129-130 on reactions unless pushed through by foreign news developments now beyond any reasoned forecast.

In a year which has shown itself prone to ignore seasonal market habits with considerable abandon it may be worth noting—even though prematurely—that a dull and generally aimless performance this summer might readily build a base from which could develop the decidedly unusual spectacle of explosive advance after Labor Day. This conjecture is predicated on the thought of what most likely would happen if we get through September without war. In that case Europe can hardly remain a dynamic market factor. It would constitute virtually clinching proof that Hitler all along had been merely exploiting a game of bluff, with every intention of avoiding a major war. By September the British and French will have completed a full year of fast increasing armament building. Whatever chance Germany has of

victory in a "lightning war" is rapidly dwindling. If it has not already evaporated—as is probable—it will certainly do so within a relatively short space of time. There are numerous indications that the German armament economy is now expanded to the limit, and the same is apparently true of Italy. The British-French defense machine is infinitely stronger than at the time of the Munich humiliation and will grow in force steadily for a long time to come.

Release from the cumulative war fears built up over the past two years might possibly touch off a large volume of buying long deferred, although the ideal psychological setting for sustained market-business recovery would be provided by termination of world war fears plus rising confidence in a conservative sweep in the 1940 election. It would be either supreme optimism or wishful thinking to assume we can get such a combination before some time in the first half of next year.

Meanwhile, as we write this analysis, half of the first page of the *New York Times* is given over to foreign news of generally "jittery" character—pointing to Nazi build-up of another crisis before mid-August. With all world capitals preoccupied by the question of war or peace, President Roosevelt's new pump priming program is overshadowed for the present. With any nearby rally likely to be of the hit-and-run variety, we favor lightening commitments on periods of strength rather than additional buying. —Monday, June 26.



Happening in Washington

BY E. K. T.

WILL IT BE ROOSEVELT AGAIN?

Possibility that Roosevelt may again be candidate for president dominates all political discussion, government policies, business planning. Remote or academic a few months ago, this possibility is now concrete and acute. Reason: New Dealers naturally want their policies (and jobs) continued; this requires a New Dealer in the White House; except Roosevelt there is no New Dealer with much chance of getting himself nominated and elected; therefore a "draft Roosevelt" movement is quite definitely under way.

Does the President want another term? There are many indications he does. He has two ambitions: to go down in history as the greatest of all presidents; to accomplish fundamental reforms in U. S. economic and social life (and perhaps in world politics) which will endure a generation or more and definitely mark a new era. His place in history is pretty well assured; it would be clinched if it could break the third-term tradition, but badly stained if he tried this and failed. The permanence of his reforms is by no means clinched; many of his ideas have not even been launched; reaction is apparent in his own party; there are few among his associates to whom he would trust the future of the New Deal even if he could dictate his successor. He has occasionally referred to the time when he will retire to Hyde Park manor, but he really likes his job and has not wearied under it as have many. He is loath to quit, and as the time expires will see more and more reasons why he should not.

One thing would keep him from running again—the certainty of defeat. He would rather have New Deal principles go down fighting than surrender to reaction, but he wants his own record free of the blot of popular repudiation. If it is apparent next spring he would get licked he won't run. No announcement before then is expected, whether or not his mind is made up, since its deferment is a political asset in controlling Congress, keeping Republicans guessing, and preventing a nomination scramble among his official family. He won't appear to seek the nomination, but will consent to a "draft." His friends have already started a draft movement which will get more vocal by the week. The strategy is to build up an apparent nation-wide demand that the President continue in office, a demand so flattering that he could not refuse. He has done nothing to discourage this; on the contrary, by his silence he has given assent.

Can he get the nomination? Probably, as things look now. In spite of the failure of the primary purges last year most Democratic state machines are amenable to Washington influence on national matters. Nominating conventions are composed of state politicians, usually hand picked, sometimes instructed—through the first ballot—for a particular candidate by preferential primary or state convention, but for the most part controlled by a few leaders, who, in turn are still pretty much controlled by Farley. Farley says Roosevelt can have the nomination if he goes after it. Apparently he would prefer that he does not, so Farley himself could run. New Dealers tolerate and use but don't embrace Farley, and he is conceded little chance for himself. If asked, he undoubtedly will again go down the line for his chief. To avoid embarrassing pre-convention fights and pledges, many state delegations will be asked to support favorite sons who would step aside when the time comes and hope for the second place on the ticket (Garner is out of consideration). Roosevelt backers don't object to this. The real question is who will control these delegations after they have been released from their pledges. Roosevelt and Farley would today. A break may come, but there is nothing to indicate they won't be able to control a goodly majority of them a year hence.

Garner is a candidate regardless of Roosevelt's intentions, his friends say without denial. Until recently this was assumed to be a political maneuver to head off New Deal aspirants and throw the nomination to some other conservative; now it appears he wants the job himself. Despite his age he will get respectable support, but New Dealers are working furiously to prevent him sewing up delegates outside Texas. The only other avowed candidate is McNutt, who promises to withdraw if Roosevelt runs. McNutt has all the ideal qualifications of a machine candidate, but Farley doesn't like him and most observers belittle his strength. Of other possible Democratic candidates—in Cabinet, Congress, governorships, or official circle—it is enough to say that none who are acceptable would run against Roosevelt and none now seems likely to win the approval of both New Dealers and working organization politicians.

Can Roosevelt be elected? He couldn't now, but the election is a year and 5 months away. Assuming no third-party ticket and no great change in domestic and world conditions, he might get an electoral majority, what with his personal campaigning abilities, the local organizations, the publicity build-up, the promises, the spending, the liberal issue, and the support of the non-Democrats who have supported him before—labor, farmers, Negroes, pensioners, reliefers, radicals, etc. But it would be a tight squeeze. Tradition against a third term is tremendously strong and, augmented by present dictatorship trends, would be a powerful issue against him. New Dealers' historical researches to prove the tradition a fallacy mean little. Only something tremendous, like a war, would offset the tradition and put him over.

Democratic split would defeat Roosevelt or any other New Dealer. If old line Democrats walk out, irked at the platform and nominee, or if the reverse happens and liberals form a new party the result would be an easy Republican victory. So efforts will be made to maintain the appearance of party harmony, prevent pre-convention splits, laugh off talk of Garner-Roosevelt friction.

Republican nominee? No one seems to care much yet. Since no candidate could touch Roosevelt for glamour, stress will be put on issues rather than the man. Only Taft, Vandenberg, Dewey are mentioned, though some dark horses are available.

CAPITAL BRIEFS

New spending drive announced by Roosevelt came without advance notice to Capitol leaders, apparently a desperate attempt at more pump-priming and employment increase before election. Projects are old ideas of many bureaucrats but theoretical justification and method of financing are a trial of grandiose schemes devised by Berle and other New Dealers, based on theory that government's function is to provide channel for the present excess of individual savings by financing semi-public works at very low interest rates. By having various agencies sell government-guaranteed bonds directly to banks, etc., the scheme short-circuits the budget, the debt limit, and Congressional control of expenditures, though of course government must make good if "self-liquidating" projects don't pay out. This feature will meet much Congressional opposition, but public works are a very popular pork barrel, and the legislation may be voted.

Underwood & Underwood

Senator Mead—sponsor of bill for guaranteed credit to small business.

Business credit legislation is not expected this session. Mead bill is meeting many objections, and there is great diversity of opinion within the administration on what should be done, if anything, to provide capital for smaller businesses. Whole subject probably will be thrown into forthcoming Congressional study of banking and monetary matters.

Insurance business is next industry slated by New Dealers for federal control. Three ideas are vaguely in mind, each with a different purpose: give S E C jurisdiction over investments, the accumulation and disposition of the perfectly enormous aggregations of capital; broaden Social Security or through some other agency permit public to get insurance at cost without agents, possibly through banks under federal supervision, something like Massachusetts bank plan which eliminates agents; direct federal regulation, replacing state control, involving supervision of rates, commissions, terms, dividends, investments, etc., to relieve companies of costs of state control and taxes and eliminate conflicting and competitive state measures.

T V A restrictions voted by House won't all be accepted by Senate and deadlock may prevent consummation of pending utility purchase deal, but if compromise results in acceptance of some of them it will be big victory for private utilities. House action is definite trend toward future drastic curbs on T V A and sets pattern for limitation on activities of other federal power projects. There are many indications that expansion of government power projects is at an end; this through Congress' sentiment, for administration is full of public power proponents.

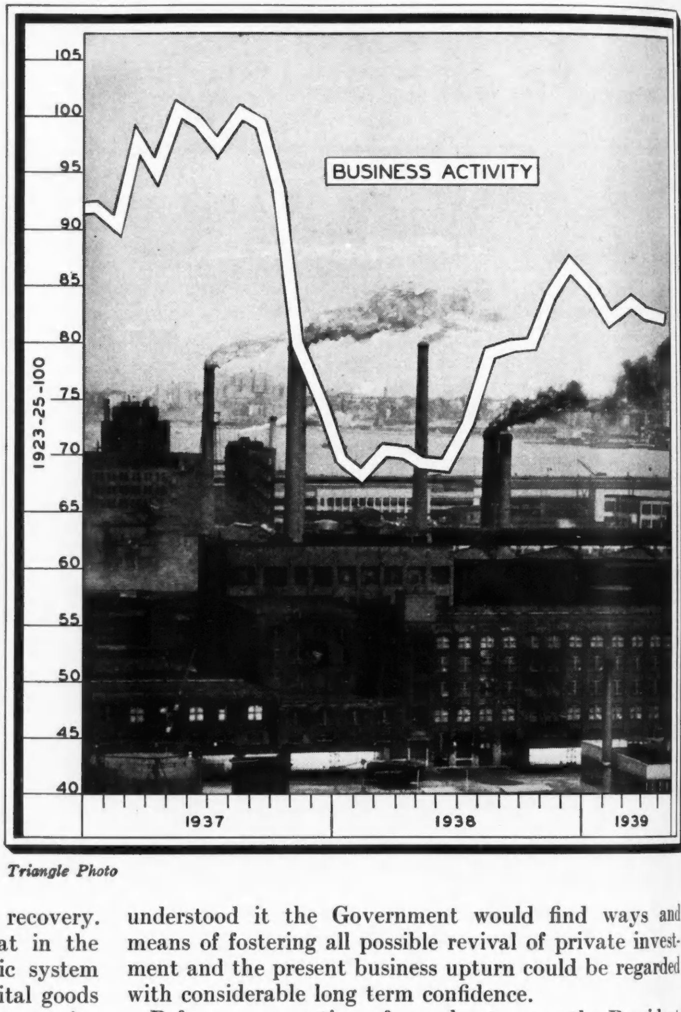
Telephone regulation recommended by F C C will not be considered by Congress this session and will be critically viewed if it ever is considered. F C C is unpopular with Congress and a thorough reorganization will be put through before it is given more power; it narrowly escaped an investigation this year and is now being punished by denial of funds.

Reorganization orders effective July 1 will see considerable shifting in personnel and many sub-executives may be ousted or given unpalatable assignments. But few significant changes in policies will be made at once except as to those agencies which lose their identity, like the coal commission.

Food stamp plan appears to be successful in increasing consumption, and will be rapidly expanded. Cotton goods will be included in the fall, and idea has possibilities of great growth, entailing fundamental changes in distribution system. But merchants generally feel they have much to gain from it.

Can Business Upturn Spiral Into Recovery?

BY JOHN D. C. WELDON



Triangle Photo

ALL signs point to a rather sharp increase in business activity—at least for the period just ahead. Whether this upturn is likely or unlikely to spiral into a sustained, broad-based recovery is quite something else again. It need hardly be said that by "sustained recovery" we are not talking about anything like the remarkable performance over the four years 1925-1929. Judged by post-1929 standards, the advance of 1935-1937 was "sustained recovery." The difference between that advance and the six-month spurt in the second half of last year is a very great difference in terms of corporate earning power and security values. Temporary earning power never commands a good price in the market place. The same for temporary recovery.

It has been aptly and accurately said that in the normal functioning of the American economic system it is the margin of income created by the capital goods industries that accounts for the gap between prosperity and depression. Under six years of the New Deal this gap has narrowed at times, widened at times but has never been closed. The productive investment of private capital—investment in facilities, equipment, construction—has remained inadequate. A recovery founded chiefly on production and sale of consumer goods and services can never produce the $80,000,000,000 national income that will be required to bring the Federal budget within sight of a balance, and Federal pump priming expenditures even on the present lavish scale can only partially fill the gap in national purchasing power.

Unfortunately, the simple fact that the heart of our continuing economic problem centers in this matter of investment is not fully comprehended by the American people or their elected representatives—for if they really understood it the Government would find ways and means of fostering all possible revival of private investment and the present business upturn could be regarded with considerable long term confidence.

Before a convention of merchants recently President Roosevelt put major emphasis on getting purchasing power into the hands of consumers. That's fine as far as it goes, but it is only part of the story. When the Government, through relief spending, puts $1,000,000,000 into the hands of consumers what happens to it? How much economic activity does it create? It goes to pay the rent, to pay the grocer, to buy gasoline, to keep up installment payments on a car, to pay insurance premiums, to pay bus fare or railroad fare, to pay the electric light bill, to buy clothing, etc. What then? Ultimately, much of it—the very purchasing power distributed by the Government—becomes private capital available for investment. Through consumer, retailer, wholesaler, utility, railroad, manufacturer, landlord—through all the arteries of a money economy—it flows

at last into the bank deposits of business enterprises and individual capitalists. And there it stops working—which is where we come right back to the basic problem of inadequate investment.

If the corporation or individual capitalist into whose hands this relief money eventually comes would invest it in modernizing a factory's equipment or in building a new apartment house, or lend it to a borrower desiring to put it to productive use, then the same dollars would do additional work. They would stimulate the producer goods and construction industries, which would employ more workers, which would create more consumer purchasing power.

But as long as capitalists lack confidence in the potential returns to be garnered from productive investment, the major part of each year's increment to private capital will be invested in Government or municipal bonds -wholly or partly tax-free, the Government will have to keep on borrowing and spending huge sums to create needed purchasing power and the money thus spent will keep on swelling the supply of private capital through increment to corporate and individual savings.

Business Spending

On the evidence of the past six years it is roughly accurate to estimate that, in terms of national income created, this Government spending, dollar for dollar, is approximately 75 per cent as effective as private investment. It matters not at all in total economic effect where investment capital comes from—provided it is productively invested. It may come from security financing, it may come from depreciation reserves, it may come from surplus earnings, it may come—via depreciation reserve or surplus profits—from Government spending. What happened in the period beginning in the spring of 1935 and running into 1937 was that corporate investment began in substantial, but still inadequate, degree to supplement Government spending. A portion of long deferred capital outlay needs—for modernization more than capacity expansion—began to be filled. This partial revival of corporate capital expenditures suddenly terminated in the late summer of 1937. Whatever the reasons for this termination, it goes far to explain why the 1937-1938 collapse in business activity was so severe.

Ever since 1929 there has been a kind of cumulative tendency for capital—and corporate managements—to become ever more cautious. The various economic, political and international fears and uncertainties responsible for this "safety first" psychology are too familiar to need discussion. The pertinent point is that it now takes a rather long period of favorable earnings to embolden the average business enterprise to loosen up on its capital outlay budget, and sails are immediately trimmed at the first hint of trouble or possible trouble.

All of this background has a direct, practical bearing on the question with which this article is concerned:—Can the present business revival broaden into sustained recovery? Whether it lasts for three months or six months or nine months, in the writer's opinion, it is likely to prove an intermediate and temporary phase of recovery rather than a sustained advance such as took this publication's per capita index of business activity from a low of 56.8 per cent of the 1923-1925 level in November, 1934, to high of 102.3 in August, 1937—an irregular advance for two years and nine months without major interruption. Indeed, it should not be surprising if the present advance falters before the end of the year. During much, if not all, of the third quarter the grave European uncertainties will restrain corporate and individual investment. If we get through summer without war or crisis we then enter a period of probable temporary tapering off of Federal pump-priming expenditures and of gradually increasing emphasis on the uncertainties of the 1940 political campaign.

The basis for a substantial short term revival is clear enough. During the second half of last year, and especially in the fourth quarter, production expanded out of line with consumption, but from December through April approximately a quarter of the preceding rise in output of durable goods and half of the preceding rise in output of non-durable goods were cancelled as measured by indexes of the Federal Reserve Bank of New York. Meanwhile distribution to consumers held steady at very close to the high of December and inventories in hands of retailers, wholesalers and manufacturers were generally declining. While the broad level of wholesale prices, measured by composite index of the Bureau of Labor, is still sagging, recent firmness in key commodities more sensitive to the immediate business trend apparently convinced business buyers that the worst had been seen and that extremely cautious purchasing policy could safely be moderated.

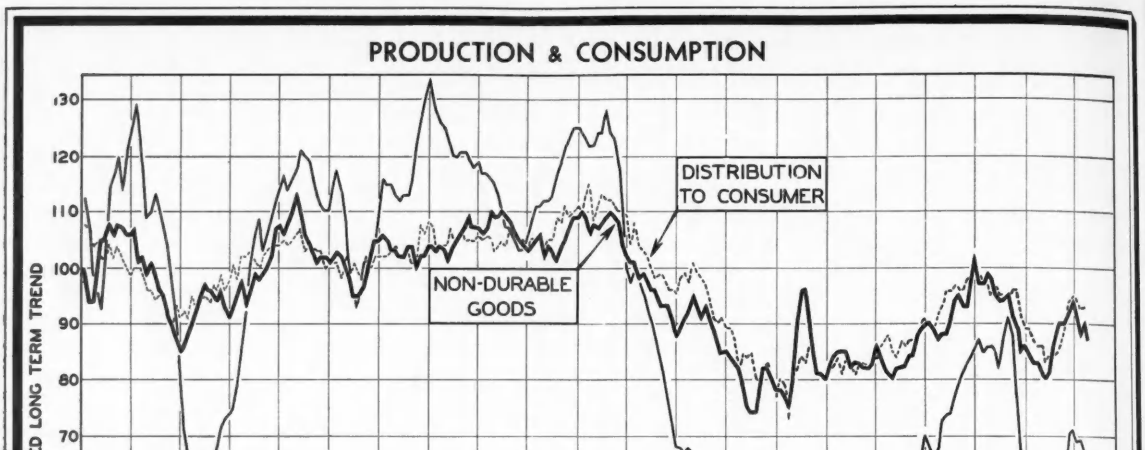
Distribution to consumers (Federal Reserve Bank of New York index) increased last year from low of 83 in May to high of 95 in December, the latter figure equalling the average of 1936 and 1937 and comparing with peak of 99 touched in December, 1936, and January, 1937. It was 94 in January, 93 for February and March and 94 in April. Judging by recent reports on retail trade, including sales of automobiles, it is not improbable that this index for June will prove to have topped last December's recovery high.

In contrast the index of output of durable goods advanced from low of 43 in June, 1938, to high of 71 in December, receding to 64 by April; while index of production of non-durable goods advanced from low of 80 in May, 1938, to 94 in December, receding to 87 by April. As indicated by Federal Reserve Board data and our own adjusted index, the corrective reaction in production terminated in April and the past six weeks have definitely established an upward trend.

Industries Showing Gains

Seasonally adjusted indexes of steel operations, motor production, railroad car loadings and electric power output have shown brisk gains. Preliminary registration figures indicate that the automobile industry has recovered approximately half of the 1937-1938 decline in its level of retail sales, with current trend of sales suggesting probability that dealer inventories will be satisfactorily worked off in the remaining time before the new model season is at hand.

The position of the cotton textile industry has improved materially, with curtailment of mill production coinciding with the heaviest buying of dry goods in



many months by wholesalers, jobbers and retailers. Consumption of copper has taken a moderate turn for the better.

With allowance for seasonal factors, construction contract awards for the past three months have held steady at a level slightly under the highest of last winter, and for the first half year volume of awards will be much the highest of any previous year back to 1929. Single residential awards are running about 50 per cent ahead of a year ago and, barring worse trouble from Europe, should at least maintain the present level through the third quarter. Multi-family residential awards are running 150 per cent above a year ago, reflecting both increased private investment in apartment house projects and also the Federal slum clearance program. The P W A construction program will taper off rather rapidly after August.

Although nothing done at Washington in recent months can be expected to produce a broad revival of private long term investment, there are no new moves on the discouraging side. The restrictions thrown around the 1940 fiscal year appropriation for W P A in the House bill are constructive, although they may be modified in conference. The same goes for House restrictions on the T V A utility program. At least some desirable changes in the Federal tax laws are in sight. The changes in the neutrality law proposed by the House Foreign Affairs Committee would tend, if adopted, to promote a war boom in this country.

Both foreign and domestic armament expenditures, with or without war, will contribute materially to economic activity for some time to come. This factor is largely responsible for the recent remarkably sharp jump in machine tool orders. For May the index of the Machine Tool Builders' Association advanced 41 per cent to a high topping any monthly level of the past twenty years with the exception of December, 1936, and April, 1937. There was a time when a strong rise in this index could be taken as a highly reliable barometer of coming general improvement in the capital goods industries. Obviously, that is no longer true when orders for machine tools can rise above any level seen in the 1923-1929 period, despite a general setting of subnormal volume in total output of producer goods. Hence we can only say that this index is a good barometer for the machine tool industry under present conditions. It is reflecting world and domestic armament spending—especially in aircraft and shipbuilding—plus the impetus to demand for labor-saving equipment flowing out of the Government's cost-raising labor and tax policies of the past six years. For these reasons, it can hardly be taken at face value as a barometer of capitalist confidence.

No probable expansion in output of consumption goods can be expected to lift the composite business index materially above the best level reached last December when, for a single month, we almost equalled the average of 1936. To get above that point will require a substantial increase in production of durable goods.

Durable goods fall into two broad classes—consumers' durable goods, such as automobiles, refrigerators, furniture, residential dwellings; and producers' durable goods, such as machinery, motor trucks, factory building, etc. All durable goods have the common characteristic of postponability of demand, and the greater the investment or outlay involved, the greater the influence of one or the other of the (*Please turn to page 309*)

Crop Prospects, Subsidies and Agricultural Purchasing Power

Beneficiaries of Farm Spending

BY FRANK R. WALTERS

ECONOMICALLY, the farmer stands shoulder to shoulder with the industrialist and the wage earner. Politically, however, the farmer is the "white-haired boy" and his voice and influence in Congress have long been far-reaching.

Paradoxically, however, Congress' concern over the welfare of the farmer and the political favors which have been showered upon him have done little or nothing toward the permanent improvement of his lot. Like the means of restoring normal activity in the capital goods industries and the reduction of unemployment, the restoration of the farmer's economic well-being and independence remains elusive and vexatious.

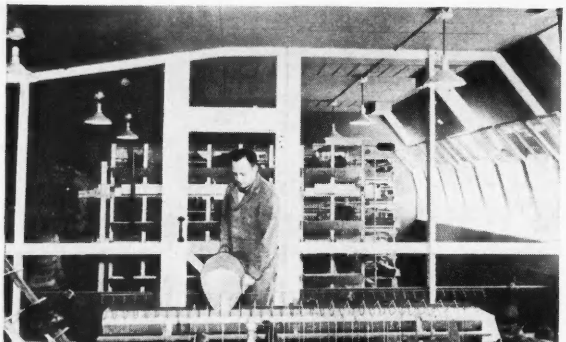
Billions of dollars in the form of benefit payments, crop loans, parity payments and export subsidies have been tapped from the Government's treasury to the farmer's pocket, but the fundamental problem of balancing agricultural supply and demand and farmer and non-agriculture purchasing power is no nearer to solution than it was ten years ago. In fact, the solution if anything seems further away than ever.

Crop prospects, always a major factor in the current business outlook, now depend mainly upon the edicts of the Secretary of Agriculture and the sums which Congress is willing to vote the farmer. Supply, demand and growing conditions are mainly effective in influencing speculative trading in farm products, for in the final analysis how much the farmer earns, and what he will have to spend, is determined by the degree of Congressional generosity. More and more has the farmer come to rely upon Government beneficence and any sincere effort to get at the root of the agriculture problem has been shelved in the interests of political expediency.

The farm problem has become a perennial question mark in our national economy and currently it is with us again. Taking the farm prospect as a whole this year, it differs only slightly from that of several years past. Prices are low, supplies plentiful and exports are lagging far behind normal. But with characteristic munificence Congress has appropriated $1,218,700,000 of the taxpayers' money to be channeled out to farmers in 1940 under the Agricultural Act of 1939. This is typical of the sort of stop-gap legislation with which Congress has sought to aid the farmer—legislation which donates public funds aplenty to lend, subsidize and pay the farmer for not farming, but which gives scant heed to the basic ills of American agriculture. Farm legislation in recent years has been conspicuously without provision for long time planning. Relief rather than cure has been prescribed by the legislative medicos.

It was the stated objective of the Federal Farm Board Act of 1929 "to place the industry of agriculture on an equality with other industries." Since that time the Government has spent $4,500,000,000, including 1939-40 appropriations, under various legislation in an attempt to reach the goal set ten years ago. How well these programs have succeeded may be seen from the fact that

Courtesy Allis-Chalmers



The henhouse on the N. Y. World's Fair Electrified Farm is scientifically illuminated to increase egg production from the hens.

expenditures for farm "relief" are increasing rather than diminishing.

Congress last year alloted agriculture $500,000,000 for conservation payments and $212,000,000 for price adjustment payments, making a total of $712,000,000 to be paid the farmer in 1939. For 1940 price-adjustment payments (based on pending legislation) have been increased to $225,000,000. Conservation payments have been held at the 1938 figure, $500,000,000, but a new item of $113,000,000 has been added to cover the cost of dumping surpluses abroad or the establishment of a domestic two-price system. In addition, and also for the latter purposes, 30 per cent of customs receipts, or about $90,000,000 will be set aside. Total benefit payments in 1940 will amount to $928,000,000, an increase of $215,000,000 over current payments.

To 1940 benefit payments will be added $50,000,000 to finance the Farm Tenant Act, $191,000,000 for public roads and $18,202,653 for the Bureau of Animal Husbandry, etc. The total of $1,218,666,572 exceeds the total of all Government expenditures prior to the World War and will account for approximately one-third of the indicated Treasury deficit this year.

Over the past five years producers of 15 various farm commodities have obtained crop loans from the Commodity Credit Corporation, financed principally out of the Treasury general fund and the public sale of Government-guaranteed securities. Outstanding and unpaid loans of the Commodity Credit Corporation amounted to $770,634,000 on May 31, last. The total at the present time is probably somewhat larger. Loans through the Commodity Credit Corporation from a farmer's standpoint are a "nothing to lose, everything to gain" proposition. If the open market price of cotton, for example, falls below the loan rate set by the Secretary of Agriculture, the grower obtains a loan and pledges his crop as collateral. If the market price subsequently rises above the loan rate, the farmer withdraws his cotton, sells it, pays off his loan and pockets the difference. If the price falls below the loan rate, the grower need not worry. His pledged cotton will cancel his debt and any loss will be borne by the Commodity Credit Corporation.

Some measure of the popularity of this loan scheme is indicated by the fact that some 11,000,000 bales of cotton are pledged with the Commodity Credit Corporation at prices ranging from 8.3 cents to 12 cents a pound. The amount of pledged cotton is almost equal to the entire 1938 crop.

On the 1938 program, loans were made on nearly 86,000,000 bushels of wheat and totaled $45,375,297. In mid-May of 1939 repayments had totaled $49,375,297, releasing about 21,500,000 bushels leaving loans outstanding of $38,000,000 against which were pledged some 64,000,000 bushels of wheat.

In addition, wheat during the 1938-39 season has had the benefit of an export subsidy, the purpose of which was to bring total exports of wheat in flour up to 100,000,000 bushels, a figure regarded by Secretary Wallace as the United States' fair share of the world wheat market. At the beginning of June exports of wheat and flour since July 1, 1938 totaled 112,500,000 bushels respectively. Of these exports about 88,200,000 bushels had the benefit of an export subsidy which it is estimated has averaged 25 cents a bushel for wheat. This is another contribution by taxpayers to the farmers' "dole."

The foregoing are the highlights in the program which the Government has persistently followed in attempting to alleviate the farm problem. In effect it has been a price-maintenance policy dictated for the most part by political expediency. The policy of making acreage allotments and rewarding farmers in cash for withdrawing acreage planted to surplus crops is the nearest approach which has been made to any effort to solve the basic needs of agriculture. The Government has sought to insulate agriculture from the primary forces of supply and demand. In so doing, however, the policy of price maintenance has lost important foreign markets, on the one hand, while on the other it has subsidized marginal producers. Only recently, Secretary of Agriculture Wallace has announced higher loans on wheat and cotton to cooperating farmers for the 1939-40 season. What economic purpose higher loans can serve, it is hard to say. If anything they will increase production, making it more difficult to handle surpluses. Can it be, with 1940 an important election year, that the farmer is being politically courted?

Aside from such considerations, however, let us examine the prospects for the farmer's income, his probable purchasing power and the effect on business as a whole, as well as on those industries which profit directly from farm buying.

Last year farm income from marketings totaled $7,538,000,000 and Government payments amounted to $482,000,000, according to estimates compiled by the Bureau of Agricultural Economics. Total cash income of some $8,000,000,000 amounted to more than 12 per cent of estimated national income last year and ac-

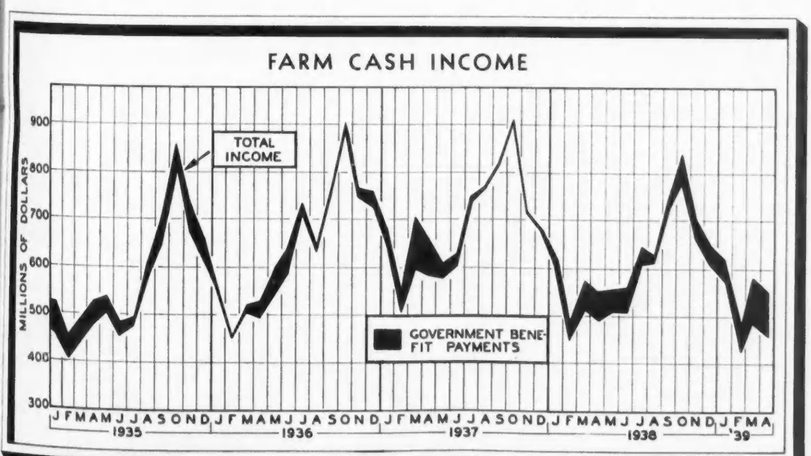
counted for an important segment of total purchasing power. In addition to actual cash income, however, the farmer's buying power was augmented by $1,200,000,000 representing the estimated value of farm products retained for farm consumption.

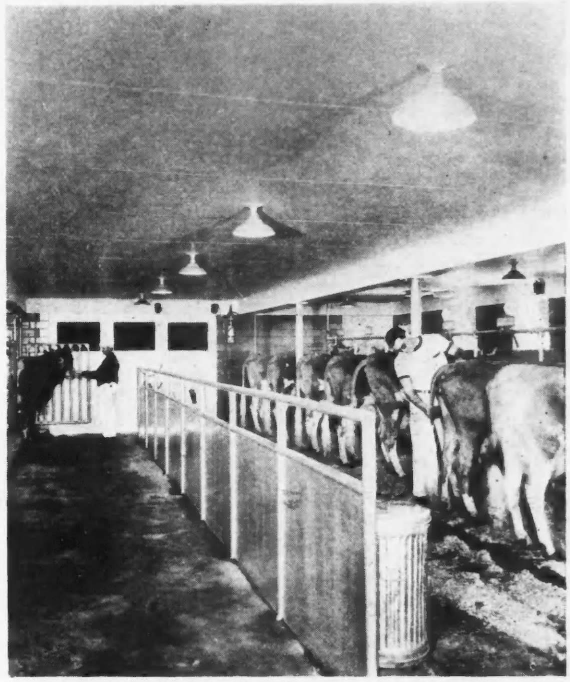
From present indications, farm income this year will be as large if not larger than in 1938, and while high-water mark of $10,350,000,000 in 1937 is not likely to be exceeded, the chances are good that current returns will compare favorably with the 1936 total of $9,672,000,000.

In that year, Government payments contributed $287,000,000 to farm income; in 1937 they accounted for $367,000,000; and last year, $482,000,000. Funds earmarked for payment to farmers this year by the Agricultural Act of 1938 total $712,000,000. The extent to which Government payments promise to sustain current farm income is indicated by figures for the first five months of this year. In that period, cash income from farm marketings totaled $2,466,000,000 compared with $2,570,000,000 estimated for the same months last year. In the current period, however, Government payments totaled $363,000,000 compared with $212,000,000 a year ago, with the result that total cash income for the first five months of this year amounted to $2,829,000,000 compared with $2,782,000,000 in the same months of 1938.

Based on official estimates farm income in the second quarter will be about the same as in the June quarter last year. Government payments, however, will be higher, indicating total income for the first half year comfortably ahead of the same months a year ago.

Aside from the likelihood that the farmer's cash income this year will be well sustained, there are several other factors which promise to enhance his actual purchasing power. For one thing, the farmer's mortgage debt has been scaled down about $2,000,000,000 since 1929, while interest and carrying charges are estimated at not much more than $360,000,000 at the present time as compared with $700,000,000 ten years ago. Taxes and farm wages are also appreciably lower than they were in 1929. Even if allowance is made for an increase of 28 per cent in the farmer's short term debt during 1938, as crops were pledged for Government loans, the actual savings represented by these several items is probably upwards of $700,000,000 annually since 1929.





The N. Y. World's Fair Electrified Farm features the latest in dairy barn equipment including air-conditioning.

Although assured of lavish treatment by the Government, actual Government payments to farmers will probably be less than 8 per cent of total farm income. It is of course comforting to the farmer to know that the Government stands ready to advance liberal loans against his crop and that he will, if he is a "cooperating" farmer, receive parity and conservation payments, but his concern is still chiefly with what his harvest will be and what he'll be able to sell it for.

The first Government official estimate of the current cotton crop will not be made until July 8. Tentative estimates by the cotton trade have placed the 1939-40 yield at about 11,000,000 bales, assuming the same acreage as last year together with normal growing conditions. Some estimates indicate planted acreage at about 2.5 per cent under that for 1938. Recent weather conditions in the cotton belt, however, have not been particularly favorable. In Alabama, for instance, there were thirty one consecutive days of rain, which usually portends heavy boll weevil damage. With the crop barely started, however, it is much too soon to arrive at a reasonable forecast based on weather conditions.

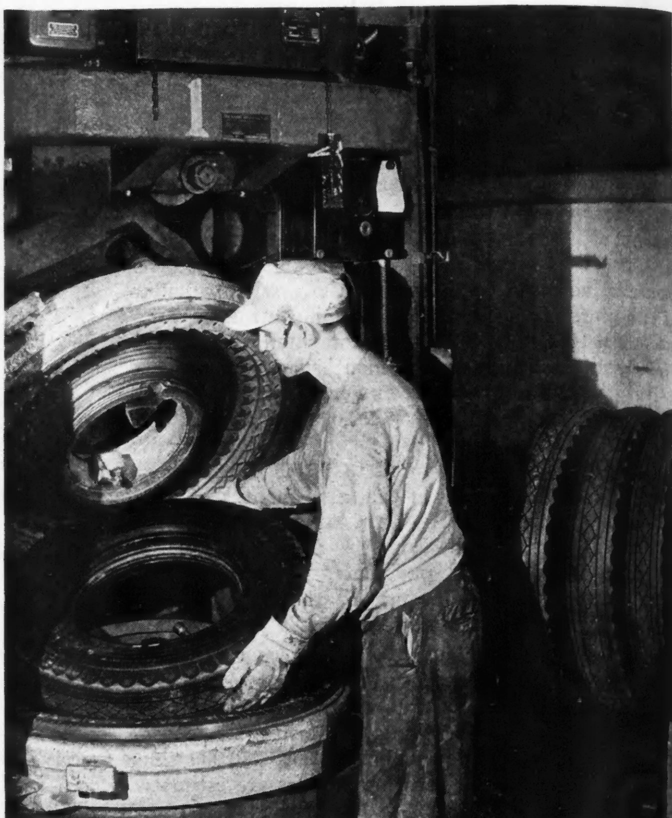
Recent interest in cotton has been concerned mainly with the Congressional fight over the proposed export subsidy. With an abrupt about-face, Secretary Wallace, who had previously opposed an export subsidy for cotton, is now an ardent supporter.

(Please turn to page 311)

Goodyear Earnings Snap Back

First Half Profits Estimated Larger Than for All of 1938

BY ROY M. FENTON



Photos in this article courtesy Goodyear Tire & Rubber Co.

A completed "shoe" being removed from the mould.

THE rubber industry's poor name among investors has been until recently fully deserved. Starting in the 'twenties and continuing through the depression the record has been one of persistent attempts to reach earnings stability, each one frustrated by some handicap that came to the surface at the exact moment when all seemed about to go well. Add to these repeated disappointments the fact that the background has been one of expansion in the use of its main products—an expansion certainly not unlimited from this point on—and it becomes difficult to avoid the conclusion to which practically all studies of the industry have led: "not suitable for long-term investment."

If the conclusion is now to be questioned and perhaps slightly modified, the reason is neither a sudden development about to revolutionize the business nor some perfect solution for all the problems of the past. Akron has had its labor troubles from time to time in other years and will have them again without doubt when conditions swing back in that direction. Fluctuations in the prices of raw materials, rubber particularly, have always plagued the manufacturers and presumably always will. Furthermore, the tire makers have before them the same very clear picture of what a better product means in terms of sales; they must continue to lengthen the life of their tires and reduce the need to replace them.

A higher rating can be assigned the rubber stocks as investments only on the basis of steady all-around improvement in handling each problem, plus constant broadening of uses and markets. Practically all in the business, although they depend upon tires for the bulk of sales volume, recognize the secondary products as increasingly important in giving them some measure of immunity from their hitherto chronic ills. The worst of these in the past has been cut-throat competition for the sake of holding up sales, and diversification of customers has helped greatly toward a cure. A convincing demonstration of the progress made lies in the record through last year's sharp slump in general business and the uncertainties of 1939.

Goodyear, the world's largest in the industry, is an excellent case in point. The Federal Reserve Board Index of Industrial Production dropped last year below any average annual figure since 1934. U. S. Steel lost money, Bethlehem could not earn its preferred dividends, American Locomotive and New York Central were in the red; General Motors earnings were cut in half. Yet Goodyear's 1938 profits were larger than in 1935 and only slightly below the level of 1937, although sales fell $50,000,000. Domestic production of cars and trucks dropped 48 per cent in 1938 from the previous year, with a comparable effect on demand for original equipment tires, Goodyear sales declined 23 per cent.

and earnings 17 per cent. And the most conservative estimates today place the company's earnings for the half-year now ending substantially above the total for all of 1938, perhaps close to the total for 1937.

One explanation for the surprisingly favorable comparison with 1937 profits lies in the inventory loss, incurred in that year as a result of crashing commodity prices. Rubber futures, to mention the most important raw material, touched 27 cents per pound early in the year and later fell to 14 cents, a drop of 48 per cent. While Goodyear has an advantage over smaller competitors when rubber prices are stable or rising, it is compelled by its size to carry huge inventories of both raw materials and finished products which cannot be more than partially hedged. Such declines as occurred in 1937 touch the company in a vulnerable spot. Although they characteristically follow a run-up almost equally rapid, they do more to damage profits than the preceding advance does to augment them. In any event, Goodyear found it necessary to penalize its 1937 earnings results by the staggering sum of $10,343,000 in an inventory adjustment practically equal to the total earnings of the previous year. Since by the end of 1938 commodity markets had passed their worst levels no charge was required to bring raw material costs down below market prices last year,

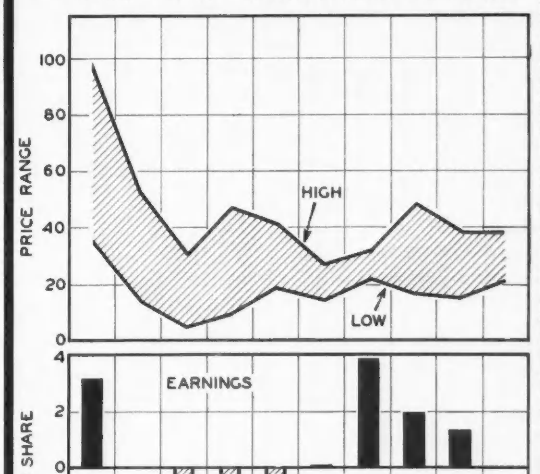
The most significant achievement of the recent slump, however, was the maintenance of selling prices under conditions which would in the past have brought about an utterly demoralized competitive situation. Tire-making capacity is far larger than present-day needs, still geared closer to the era when a year was a reasonable life expectancy for a casing. Costs are naturally sensitive to any failure to hold volume up where manufacturing efficiency is greatest. Excess capacity and heavy stocks during a period of dwindling sales have heretofore proved irresistible invitations to a price war, but not in 1938. The Robinson-Patman Act regulating price discrimination to similar classes of buyers helped to prevent a break in the price structure; the fact that the four largest companies are now doing some 80 per cent of the total business in the industry has undoubtedly had a share in the improvement. With dozens of marginal firms eliminated or merged there has been practically no distress selling to upset the market. Regardless of the cause, the industry has convincingly shown its ability to go through a trying time without getting out of hand, even though, as already noted, its largest concentrated body of customers were cutting their production of cars and trucks almost in half. In November, 1937, when rubber and cotton prices were falling sharply, when tire shipments were the lowest in four years, and when manufacturers' inventories were at a record high, tire prices were actually raised.

Distribution methods have also become more efficient partly as a result of the saner price policies. Goodyear sells its tires and tubes at retail through more than 100,000 dealers all over the world in addition to some 650 of its own stores. Retailers get the co-operation of company advertising and special sales efforts plus the assurance that they will not be undersold by the company itself in the press for business. Stability in ultimate distribution has, in turn, helped wholesale price schedules by eliminating public resistance to list prices.

What the motoring public loses in no longer getting the doubtful benefit of periodic price wars is made up several times over by what it has gained in mileage values. Goodyear points out that the list price of a best quality tire and tube for light cars in 1926 was $23.95, in 1938 $19.35. The average mileage of the 1926 equipment was 14,200, as compared with 26,500 now. This made the cost per mile in 1926 just under $.0017 against $.0073 today. Meanwhile the weight of the tire has been increased from 15.5 to 21.9 pounds, and the cost per pound has been reduced from $1.55 to $.88. Only the increase in motoring has prevented lengthening tire mileage from making very serious inroads on the manufacturers' replacement business.

Along with improvements in tire making, however, have come discoveries of new uses for rubber which promise not only to keep the business growing, but to relieve its dependence on tires and tubes. Goodyear spends over a million dollars annually on research, equal to 50 cents per share on the common stock which is being invested for the stockholders as a producer of future earning power. The company's tendency is to concentrate its manufacturing activities as far as possible on lines which are assured of volume demand. Two new products appear definitely to come within that category. Pliofilm is Goodyear's transparent sheeting, proof against moisture, grease, air, alkalis and dilute acids. It is odorless and tasteless, perfectly adapted for wrapping foods or providing attractive display packages for innumerable articles. Airfoam is a more recent development, the result of the discovery that the latex from which rubber is made can be processed into a remarkable cushioning material by beating air into it while liquid. The foam is then molded and water cured into any desired shape and used for mattresses, for auto-

PRICE AND EARNINGS RECORD



Balance Sheet Comparisons

Individual Assets as Percentage of Total Assets

	Goodyear	18 Rubber Co.'s Combined
Cash and Cash Items	5.7%	6.1%
Marketable Securities	.3	.1
Trade Receivables	11.2	13.6
Inventories	37.9	33.8
Other Current Assets	.6	.6
Total Current Assets	55.7	54.2
Investments	.6	4.4
Land, Buildings and Equipment	40.3	38.6
Deferred Charges	.9	1.1
Other Assets	2.5	1.7
Total Assets	100.0%	100.0%

Individual Liabilities as Percentage of Total Liabilities

	Goodyear	18 Rubber Co.'s Combined
Notes Payable	0	5.2%
Accounts Payable Trade	1.4%	5.0
Accrued Items	2.6	3.2
Other Current Liabilities	.6	.7
Total Current Liabilities	4.6	14.1
Other Liabilities Due in 1 year	0	.4
Funded Debt	26.9	22.0
Other Long-Term Debt	.1	.2
Reserves	3.3	2.3
Minority Interest	5.4	1.6
Preferred Stock	33.4	28.6
Common Stock	5.6	25.6
Total Stock	39.0	54.2
Capital Surplus	9.7	4.4
Earned Surplus	11.0	.8
Total Surplus	20.7	5.2
Total Capital Stock and Surplus	59.7	59.3
Total Liabilities	100.0%	100.0%

(All figures are for 1937, calculated by WPA under SEC sponsorship.)

Income Statement Comparisons

All Items as Percentage of Total Sales

	Goodyear	18 Rubber Cos. Combined
Sales	100.0%	100.0%
Cost of Sales	64.8	66.5
Gross Profit	35.2	33.5
Maintenance and Repairs	2.2	2.2
Depreciation, Depletion, etc.	3.7	3.2
Taxes (other than Fed. income)	9.6	4.8
Rents and Royalties	1.0	1.0
Prov. for Doubtful Accounts	.1	.3
Selling, General and Admin. Expenses	8.5	14.8
Total Expenses Charged to Operations	25.1	26.3
Net Profits from Operations	10.1	7.2
Dividends and Interest Received	.3	.3
Capital Gain and Unclassified Income	.2	.4
Total "Other Income"	.5	.7
Capital Loss and Unclassified Deductions	5.1	2.4
Net Before Interest and Income Taxes	5.5	5.5
Interest Expense	1.2	1.3
Net Before Income Taxes	4.3	4.2
Provision for Income Taxes	.9	.8
Net After All Charges	3.4	3.4

(All figures are for 1937, calculated by WPA under SEC sponsorship.)

mobile cushions or any purpose which requires resilient toughness. Its wearing qualities are understood to be excellent, adapting it for use not only in the seats of passenger cars, but of trucks, buses and railroad cars.

A wide line of mechanical rubber goods provides further diversification for Goodyear. Most of these items—transmission belting, conveyor belts, hose of various types, rubber lining for tanks and pipes, and so forth—link the company closely with trends in general or heavy industry, but the new uses being developed in agriculture are some offset. During the last few years a major swing has taken place toward equipping farm machinery with rubber tires, with Goodyear a leader in the trend. The company also leads in supplying airplane tires and has been successful in promoting sales of its own automobile and truck batteries. The percentage of crude rubber in this country going into mechanical goods last year was almost double that in 1929; at the same time, it is estimated that over 50 pounds of rubber now goes into an automobile for equipment aside from tires and tubes, as compared with about 5 pounds in 1929.

Of all the rubber companies Goodyear is most strongly situated in the replacement equipment market, but not so well-placed in proportion to size as some of its competitors in the miscellaneous lines which are expected to grow in importance. Sufficient attention is being devoted to products outside the automobile industry, however, to insure that the company will gradually broaden with the others in the field; meanwhile the most profitable market continues to be found in sales of tires and tubes to car owners. The pickup in automobile sales which was maintained over several of the last few years created a large potential market which should help sales for replacement even though new car production tapers off.

About half of Goodyear's domestic tire-making capacity is in Akron, the balance spread over the country from Maryland to California. Important foreign investments include plants in England, Canada, Australia, Brazil, Argentina, Java and Sweden. Selling facilities are even more widely scattered throughout the world. Cotton plantations, coal mines and textile mills are owned and operated while a substantial amount of crude rubber is produced from the company's own plantations, though production is not large in comparison with total requirements of the raw material.

Shown in the accompanying table are percentage breakdowns of the Goodyear balance sheet and income statement for 1937 alongside composite figures for eighteen major rubber companies registered with the S E C. The first item in the income statement—Cost of sales . . . 64.8 per cent of total sales—is somewhat lower than the average for the industry. Selling, general and administrative expenses are definitely below the average, but this is to be expected of a large organization which can spread such costs over a tremendous volume of sales. Depreciation and depletion charges were moderately above the composite figure, while taxes were exactly double. These taxes, it should be noted, do not include those imposed on income by the Federal Government.

Net profit from operations was 10.1 per cent of sales in the case of Goodyear, 40 per cent higher than the 7.2 per cent registered by the industry as a whole. This figure is one of the most significant in the tabulation, rep-

resenting as it does the company's comparative profit margin on operations unhindered by a break in commodity prices. The later deduction for capital loss and unclassified charges, over twice that for the industry, is a direct result of the 1937 writedown of inventories, which alone accounted for more than 90 per cent of the item. Because of this charge Goodyear's net income for the year figures out to the same percentage of sales as that of the eighteen companies combined.

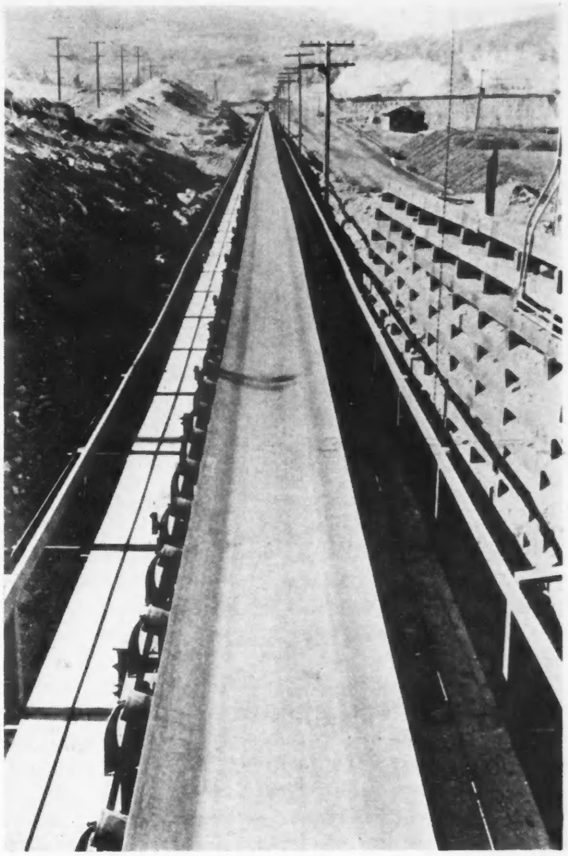
The balance sheet comparisons bring out among other points the relatively heavy inventory position of Goodyear even after the drastic writedown made to reduce book values to the market. Almost 38 per cent of the company's total assets as carried on the books were in inventories, against less than 34 per cent in the composite figures. Goodyear's ratio of current assets to current liabilities figures out at better than 12 to 1, whereas the ratio in the case of the combined companies is less than 4 to 1. Cash alone is equal to 1.2 times Goodyear's current liabilities, but only 0.4 of the composite current liabilities.

Greatest contrast in capitalization is that shown by the percentage of total liabilities carried for the common stock—5.6 per cent in the case of Goodyear, 25.6 per cent in the composite. Deductions drawn from these items are misleading, since only book values are being considered and Goodyear carries its common stock on the books at a low figure. Total capital stock and surplus works out to almost identical figures in the comparison, giving a much truer picture of the situation.

At the end of 1938 Goodyear's capital structure was headed by $40,000,000 of first mortgage 3½ per cent bonds due in 1958 and $10,000,000 in serial notes due from 1939 to 1943 and bearing interest rates of 1½ per cent to 2½ per cent. These issues took the place in December of a slightly larger amount of first mortgage bonds carrying a 5 per cent coupon and due in 1957. Interest savings on the refunding are estimated at approximately $1,000,000 annually or 50 cents a share on the common stock. The new bonds are subject to sinking fund provisions starting at $500,000 annually and increasing toward maturity to $2,200,000 in 1957. A contingent sinking fund is also provided for, beginning in 1945 and devoting 10 per cent of consolidated net earnings to that purpose. Real estate mortgages of subsidiary companies are outstanding in the amount of $234,756.

The 650,432 shares of $5.00 cumulative preferred stock outstanding at the end of 1938 are convertible into common at the rate of 2½ shares for 1 until October, 1940, 2 shares for 1 during the next two years, 1½ shares for 1 during the next two, and 1 1/3 shares for 1 in the two years ending October, 1946. This stock has no par value, but is callable at 110. The common stock is outstanding in the amount of 2,059,060 shares of no par value. Conversion of the preferred at the present rate would increase the common by 1,625,000 shares, but would, of course, eliminate preferred dividend requirements, now $3,250,000 annually. Until the common stock rises above 40 and/or goes on a regular dividend basis of at least $2.00 a share there will be no inducement to convert the preferred. Nevertheless the possibility of dilution from this source must be considered when projecting possible earnings per share on the common.

Profits last year were equivalent to $1.34 per common share of which all but 2 cents was earned in the last half. This compared with a profit of $3.18 in the first half of 1937 and a loss of $1.23 in the last half, making a net for the year of $1.95 per share. Dividends which in the previous year had amounted to $2.50 were reduced to 25 cents in 1938, and two quarterly payments of 25 cents each have been made so far in the current year.



The world's largest conveyor belt, made by Goodyear, which moves at the rate of 450 feet a minute is being used in the construction of Grand Coulee Dam.

Comparisons of current earnings with those of a year ago will be benefitted by substantial increases in sales and a maintenance of profit margins somewhere near the levels of the final 1938 half. Aided by the reduction in interest charges recently accomplished and by a firm price structure Goodyear has continued its comeback in 1939. What the second half of the year will bring depends upon general business conditions and particularly upon the course of the automobile industry. Currently priced at 28, Goodyear common is selling not far from fifteen times earnings of the first half-year alone, obviously not discounting any large earnings gains to come. The issue is volatile in its market movements and has no enviable record for either profits or dividends, therefore must be classed among the more speculative. It is, however, one of the equities best-placed to gain from progress in the rubber industry. If the record of the last year is to be relied upon for the future, that industry is due to receive more attention from investors as they come to realize the stabilizing of prices and broadening of activities constantly going on inside it.

The Stockholder's Guide

— Directors Should Share Risks of Ownership
— Are Safe Income Stocks Too High?

Conducted by J. S. WILLIAMS

"When I am asked for my proxy," writes a reader, "for the purpose of electing as directors men who hold ridiculously small amounts of their own common stock —into the wastebasket goes the proxy request. The company has simply thrown away what it cost to get after me. There are probably many others who feel the same way." Judging from the reactions to editorial comment in a recent issue of this publication, many stockholders do feel that way. In certain cases their resentment would doubtless be dispelled if they knew all the facts of an individual situation. Nevertheless, as long as directors and officers are listed as the owners of little or none of their own stock, without attempt at explanation, a sore point will remain to plague stockholders who notice such things and to disturb the relationship between management and owners.

Professional Directors

William O. Douglas when Chairman of the S E C suggested that directorates should be smaller, more like those of British concerns, and made up as far as possible of "salaried professional experts." He was less concerned with the amount of stock held by directors than with the actual duties performed by them, the time and effort devoted to their jobs. His particular objection was to the one-day-a-month directors whose interests are so little affected by developments within the companies they are supposed to be guiding that they serve merely as ratifiers for the decisions of the officers or of controlling cliques on the boards. Some of them are directors of ten, twenty or thirty companies, unable to give their attention to the affairs of any one enterprise for longer than a board meeting lasts. The chances are that such individuals are wealthy men, but it would obviously be impossible for them to own large blocks of stock in each company they serve. To a certain extent, therefore, the proponents of paid professional directors and those who would like to see all directors sharing in the responsibilities of ownership have the same principal objectives.

The practical accomplishment of the desired ends hinges on our methods of choosing officers and directors. Rightly or wrongly many other qualifications besides ownership and familiarity with the business enter into the selection. Large individual stockholders are entitled to one or more places on the board, and whether or not the chief executive officers hold sizable amounts of stock they must naturally have some representation. Important customers whose good will must be preserved can be tied in with the company's interests most effectively by either honorary or working places on the board. Those who have something to sell the company in a perfectly legitimate way, whether it be raw materials or insurance or machinery or transportation, can be expected to make an attempt to gain its inner circles—sometimes by buying and holding large blocks of stock.

The company itself is frequently anxious to have among its directors men whose prestige will aid in one way or another. Occasionally these men will be bankers whose influence facilitates credit accommodation or favorable treatment in floating a future bond issue. Oftener than would be believed or admitted by those who would like to see the whole system reformed overnight, influential directors are chosen because of their demonstrated sound judgment and knowledge of general business. Their decisions made on the basis of long experience plus a day's study of a particular question are felt to be worth more than those of specialists who devote their entire attention to the one enterprise. It is inevitable that men of this type will be in demand in many different quarters, and it is probably unavoidable that situations should arise which involve a conflict of interest. When a man, for example, is a director of a railroad and of a steel mill at the same time, one a buyer of rails and the other a large shipper, a scrupulous sense of business integrity is needed to guide his policy between the two companies which may be at opposite ends of many mutual transactions.

Fortunately the men who achieve these multiple directorships have compiled a record worth a great deal of respect. Yet if all directors could be induced to maintain substantial holdings of their companies' stocks in proportion to their individual means and circumstances, the situation would be improved in several important respects. Indifference to or abuse of responsibility would be even less likely in the case of a man with a good-sized

personal stake in the ownership. The necessity of a large investment in each company would limit the number of concerns to which any single man could engage his services as a director. And finally, by no means least important, the attitude of the stockholders who own anywhere from a couple to a few hundred shares apiece would be much more kindly toward men who were showing their faith in the company by their own investments.

Where a director represents a large block of stock which does not appear as his on the record—the holdings of an insurance company, a university, hospital or other institution—then the circumstances should certainly be explained to stockholders along with the announcement of directors' holdings. Youngstown Sheet & Tube makes such an explanation with respect to one director who owns only 12 shares of stock. On the other hand, the same company lists a director who owns no common stock and another who owns only 70 shares. Of seventeen candidates for the Goodyear board at the last election of directors six apparently held no common stock and another held 19 shares. One of the five up for election to the Goodrich board was the owner of 10 shares of the stock. International Paper listed four directors who held no stock, American Telephone three with less than 100 shares apiece, Commonwealth Edison and Gillette Safety Razor two men in each case without stock holdings. The mention of these instances is hardly fair without having it well understood that the list could be expanded to include most of the large companies in the country.

Explain to Stockholders

Some have already come to realize the need for an explanation to stockholders. In addition to the example cited above there is Food Machinery with a director who owns no stock but represents the underwriters of a recent issue for the company. Wheeling Steel explains that one 5-share holding is by the representative of a banking firm. Wrigley numbers among its directors the vice-president of a bank which handles several trusts owning large blocks of the stock, and although this man himself owns only 10 shares the situation is perfectly understandable to the other stockholders who realize that neither the trusts nor the bank have any other method of representation open to them.

No inflexible rule should be laid down as to what constitutes the desirable size of a director's stockholdings. A wealthy man can naturally afford to invest more in a single company than a relatively poor man without sacrificing diversification entirely. The director who is dependent upon the salary paid him by the company is justified in going into other fields for a good part of his investments, rather than stake everything upon his job and the prosperity of the company. Holdings can in some cases be too large, to the point where they influence directors to pay dividends that should not be paid, merely to maintain personal income. They must at all times be variable, so that no director shall be constrained to hold a large amount of stock through a market boom which pushes the price far above reasonable levels. In normal periods, however, the post of director should go only to men who feel that progress in the company's affairs is possible and who are willing to share in the risks of ownership together with the stockholders whom they represent.

Where there are explanations of minute or invisible holdings, they are due the owners of the business. Where there are none except that the individual directors do not feel sufficiently confident in the future of the company to increase their commitments to a reasonable size, then the company should recognize these situations as liabilities in its relations with stockholders. The danger is that if not voluntarily corrected we shall eventually have a law which will take away all freedom of judgment as to the amount of stock a director must own, perhaps as to other of his qualifications. A direct look at the problem now and an attempt on the part of each company to solve it individually without waiting for coercion would be far better for all concerned. A certain amount of resentment has been aroused at the new rules for the solicitation of proxies which require among other things a statement of the holdings of each director. The traditional attitude is to consider such information private and personal, and it continues even though the S E C has been requiring reports of this information and publishing it elsewhere for a number of years. The resentment is probably responsible for a good part of the reluctance to go all the way with stockholders—explain small holdings where they represent larger ones in the background—build up the proper feeling of mutual interest.

The former Chairman of the S E C had this to say about the present situation: "We have ownership without authority and we have authority without ownership and, which is worse, without responsibility." Authority, ownership and responsibility can be tied closer together by a policy of insisting upon directors whose interests are identical with those of the stockholders. It is important not only that this community of interest exist but that it be evident to all concerned, and the one indisputable way of making it clear is through substantial individual stakes in the equity securities—stakes that are in proportion to the means of director. The other alternatives over any length of time are likely to be stockholder ill-feeling or bungling regulation by some government bureau.

Are Safe Income Stocks Too High?

The type of investor who buys the safe income stocks is naturally more cautious than the ordinary trader or speculator. For that reason it may be taken for granted that enthusiasm will play less part at all times in the market for these issues, many of which hold out no prospects of dynamic earnings gains or market appreciation. The mistakes made in over-pricing them are likely to be smaller in scope, perhaps to persist over a longer period of time, than in the case of the cyclical leaders.

Whether or not the issues offering dependable yields have been pushed too high is therefore a question which may not be answered for considerable time to come; and the final answer, if in the affirmative, may involve only modest markdowns to bring the storm-cellar issues back to an impregnable position. This does not mean, though, that the question can be ignored in choosing stocks for income. It means rather that thought should be given to the problem of combining safe (*Please turn to page* 310)

Profit Outlook for Tobacco Stocks

Stability Rules in Operations of Cigar, Cigarette and Snuff Companies

BY CHESTER M. HOLDEN

INVESTORS looking for excitement can pass up the tobacco industry. There have been no bombshells or revolutionary developments of late, nor are there likely to be any. Long term underlying trends of the industry's principal divisions remain about the same as in many years past. Per capita cigarette consumption continues the secular uptrend that began at the time of the World War, per capita use of cigars, smoking and chewing tobaccos remains in the generally downward curve that has prevailed since before 1920, and snuff consumption continues to show very little change from one year to the next. But drawing closer to the picture, some interesting details become apparent.

Cigar smoking, for example, is picking up. Gains since 1932 have not yet reached sufficient proportions to suggest definitely that the long term downtrend has been reversed since only about half the ground lost in the three years following 1929 has been retraced. However, the upturn of the past few years has been the best sustained recovery in two decades. Of course, consumption last year was off somewhat from 1937—3.4 per cent to be exact—but sales thus far in 1939 have been running better than 5½ per cent ahead of a year ago and are not far below 1937 levels.

Improved fortunes of the cigar manufacturers are by no means uniform throughout the trade for sales gains have been exclusively in the so-called Class "A" brands, selling at five cents or less, and to a considerable extent at the expense of medium and higher priced makes. The nickel cigar field is dominated by Bayuk Cigars and General Cigar. The "Phillies" brand of the former, cut from ten to five cents in 1933, has since become easily the most popular cigar in its price class. Though the company is also represented in the less-than-five-cent and in the ten-cent fields, it has mainly "Phillies" to thank for the conversion of a 1932 deficit of $4.15 per share into record earnings of $3.01 in 1938 which, incidentally, topped the 1937 figure of $2.17 by 39 per cent. The present margin between earnings and dividends, which have been at the rate of $1 annually in recent years, leaves ample room for an increase in payments even allowing for retention of a substantial portion of profits for continued promotion efforts. Financial position was considerably improved last year with the reduction of bank loans from $1,800,000 to $500,000. First quarter results in 1939 amounted to 68 cents a share against 37 cents in the like 1938 period.

General Cigar's "White Owl" is "Phillies'" most effective competition, but General, probably because of its greater relative dependence on medium and higher priced brands and "White Owl's" somewhat lesser popularity recently, has not shown to advantage earnings-wise of recent years, per share results having declined steadily from $4.19 in 1934 to $1.81 last year. A new "White Owl" blend and adoption of an Havana filler have raised General's costs in recent months.

The cigar division of the tobacco industry is, of course, rather small potatos as compared with the cigarette

Leaders in the Tobacco Industry

	Earned per Share			Divds. Paid or Decl'd To Date		Price Range 1939		Recent
Cigars	1938	1937	1936	1939	1938	High	Low	Price
Bayuk Cigars	$3.01	$2.17	$2.10	$0.37½	1.00	22¼	15¼	21
Diesel-Wemmer-Gilbert	2.21	2.46	2.62	0.25	1.25	16⅝	11¼	16
General Cigar	1.81	2.80	3.07	1.00	2.00	25¼	19⅛	20
Cigarettes								
American Tobacco	4.89	5.04	3.71	2.50	5.00	87½	73	82
Liggett & Myers	6.09	6.35	7.25	3.00	5.00	106½	97½	105
Lorillard (P.)	1.78	1.42(a)	1.51	0.60	1.40	24⅜	19½	23
Philip Morris	7.37(b)	7.27(b)	4.59(b)	4.25	6.75(e)	103½	82½	91
Reynolds Tobacco	2.37	2.82	2.93	1.00	2.90	58	53	54
Snuff								
American Snuff	3.32	3.13	3.32	2.50	3.25	68	59½	67
Helme (G. W.)	5.84	6.01	6.82	5.75	7.00	117	110	112
U. S. Tobacco	1.74	1.97(c)	2.22	0.64	1.66	37½	33	36

(a)—Before flood loss of 57 cents per share. (b)—For fiscal year ended March 31, of following calendar year. (c)—Before flood loss of 17 cents a share. (e)—Plus ½ share of common stock.

oranch. In this field, Philip Morris, whose English Blend cigarette displaced Lorillard's "Old Gold" among the big four last year, is by all odds the most dynamic of the major companies. Net per common share for the year ended March 31, 1939, was $7.37 as compared with $7.27 for the preceding year, 67 cents in 1932 and 69 cents in 1929. Of the 77,125 shares of 5 per cent convertible preferred stock issued last year to retire bank loans, all but 26,749 had been converted by the end of the fiscal year. Bank loans to finance increased inventories consequent to the company's still rapidly growing volume of business had again risen to $7,000,000 by March 31. Annual dividend payments, maintained at a rate of 67 cents prior to 1936, have since been raised by successive steps to $6.75 last year.

Aside from Philip Morris, whose unit sales totaled 9.2 billions last year against 7.5 the year before, the only major brand to record an increase in 1938 was American Tobacco's "Lucky Strike." Sales of the latter were 39 billions, up half a billion from 1937 in contrast with the sharp decline in Reynolds' "Camel" from 45 billions to 40.7 billions. "Luckies" have continued to gain thus far in 1939 and are now probably running ahead of "Camel," erstwhile sales leader of the industry. Despite a one billion decline last year, "Chesterfield," made by Liggett & Myers, is a fairly close third at 37 billions. Lorillard's "Old Gold" is an unimpressive fifth, unit sales of 6.3 billions last year comparing with 7.9 billions in 1937.

The big cigarette companies report earnings only once a year but it is a reasonably safe bet that at least American and Philip Morris are enjoying gains over a year ago. First quarter sales of the former are understood to have been substantially ahead of the same period of 1938 and it is likely that the company's regular $5 dividend will be earned in full this year; in 1938 American missed the mark by 11 cents, reporting $4.89 as compared with $5.04 the year before, a depression low of $3 in 1933 and a previous high of $9.07 in 1931. American's newly introduced "Pall Mall" brand is reported to be making encouraging headway, as is "Dunhill" for which Philip Morris has obtained exclusive distribution rights in this country.

All companies will be aided this year by the lower duty on imported cigarette leaf, cut last month from 35 to 30 cents a pound, and by slightly lower tobacco costs on last year's crop, though when averaged with prices paid in the two preceding years (to correspond with the normal three-year average inventory), the latter factor does not carry great importance. Nor, on the other hand, are the small wage increases granted to factory workers within the past few months of much significance earningswise since wage costs typically account for less than 3 per cent of the wholesale value of the finished product.

Due to the substantial increase in tobacco inventories necessitated in recent years by higher sales and tobacco prices and, in several instances, notably in the case of American and Reynolds, to payment of dividends in excess of earnings, there has been a marked decrease

Courtesy Rowe Mfg. Co.

Vending machines such as shown above in the Metropole Cafe, N. Y. C., facilitate retail distribution of cigarettes.

in cash and investment holdings of the major companies. Inventories of Liggett & Myers, for example, have risen about $65,000,000 since 1932 while cash and marketable security holdings have declined $60,000,000. This, of course, has had the effect of reducing "other income" derived mainly from return on investments.

No review of the tobacco situation would be complete without a word in connection with the remarkable growth of the ten-cent brands in recent years. In 1933, 8.5 billion cigarettes priced at ten cents for a package of twenty were sold in this country; last year the total was 24 billions and the end is not yet in sight. The dime brands obtained their first foothold in 1931 when the "big four" made the mistake of raising prices in the face of lower leaf costs and declining consumer purchasing power. Though their rate of sales growth was slowed somewhat in subsequent more prosperous years, the curve turned steeply upward again in the depression year 1938. The ten-centers thrive on depression and it is of interest to note that earnings of Axton-Fisher, a leading unit in the field, have varied inversely with the condition of general business since 1931. In that year, net per share of Class A common (figured on basis of maximum possible distribution in participation with the Class B after prior dividend requirements on the latter) was $5.80. In 1933, earnings were up to $17.09, by 1937 they had fallen to $3.20, and last year recovered to $6.72.

The tax situation in the industry is acute. In addition to the Federal levy of 6 cents per package, taxes are now imposed on the sale of cigarettes in no less than 22 states. When its new impost of 2 cents per pack takes effect July 1, New York will bring the total to 23. The situation in New York City is particularly severe for here a special relief tax of 1 cent has been in effect for the past year and this levy has just been extended for another year. Thus, total taxes on single (*Please turn to page 312*)

The Investment Clinic

— A Portfolio for Today's Conditions
— Sole Equity vs. Leverage

Conducted by J. S. WILLIAMS

INSATIABLE fiduciary and institutional demand has pushed the prices of highest grade bonds up to a point where this type of investment is virtually out of the reach of the individual investor. And, if the substantial premium at which this group of securities is selling is not sufficient to discourage individual investors, their obvious lack of inducement is emphasized by the extremely low yield and the flagrant disregard of the market for call prices. Thus, not only must the investor pay top prices for high grade bonds and accept a yield of only slightly more than could be obtained from a Government - insured deposit in a savings bank, but he risks almost certain loss through redemption prior to maturity.

The mere fact that a bond already carries a low coupon rate, or is the obligation of a company which eighteen months or two years ago would have been hard pressed to finance itself on a 5 per cent basis, is in neither case a guarantee against an early call. Companies which counted themselves fortunate three or four years ago to be able to refund 5 and 6 per cent bonds with a 4 per cent issue, now find themselves, as a result of the Government's "easy money" policy, able to market readily issues or loans bearing interest of only 3 per cent—even less.

Finding themselves unwilling, or unable, to compete against institutional demand for high grade funds, individuals have either been compelled to let their funds remain idle, or under the necessity of maintaining income, have diverted funds to issues of lesser quality. As a result of this growing demand, the second grade (not speculative) bond market has recently shown a strikingly similar pattern to that of high grade bond prices. Yields on second grade issues are being forced down, and issuing companies quick to take advantage of a favorable market situation are planning large scale refunding operations, not possible under previous market conditions.

Not to be denied, however, what in their opinion constitutes a fair return on their money, investors have sought to bolster income through the medium of preferred stocks and dividend common stocks identified with the more stable industries.

Readers of previous discussions which have appeared in this department will recall that this was precisely the policy which was first advocated some months ago. It was advocated, however, purely as a temporary compromise and to be limited to less than half of one's total investment capital. If pursued discriminately, such a program violated no principle of sound investment or invited serious risk. Moreover, it still offers the best solution for bolstering diminishing investment returns, under present conditions.

If carried too far, however, and without proper regard to the choice of issues, regardless of whether the medium is bonds, preferred stocks, common stocks, or all three, it would in effect be a "trading down" policy which in the end

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J. C. Penney Co.

Recent Price: 88 Dividend Rate: $3

This is the eighth of special fortnightly investment suggestions to those primarily interested in income, safety of principal and sound investment standing. Each subsequent issue of the Magazine will contain one such selected issue.

Operating a chain of some 1,500 department stores, with heavy concentration in rural districts, J. C. Penney Co. is one of the nation's leading retail units. The company does a strictly cash business and offers a wide variety of merchandise, including men's, women's and children's clothing, dry goods, etc.

Over the past ten years, the company's earnings have averaged $4.94 a share annually. For 1938, with sales 6.3 per cent under the 1937 record, net was equal to $5.40 a share for the common stock, compared with $6.52 a share in 1937. Sales in May of this year were 18 per cent above May a year ago and for the first five months the increase was close to 10 per cent.

Dividends last year totaled $4.25 a share and quarterly payments this year have been at the rate of 75 cents. An increase in this rate or a year-end extra is indicated.

Company has no funded debt or preferred stock. Capitalization consists of 2,543,984 shares of common stock. Financial position is excellent. Cash at the end of 1938 totaled nearly $20,000,000 compared with current liabilities of less than $13,000,000.

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would leave the investor with a portfolio composed almost entirely of questionable issues. One or two unfortunate choices could easily wipe out all the advantage, and more too, obtained in the form of larger income.

In previous issues we have sought to give a practical slant to these discussions by presenting selected lists of bonds, preferred and common stocks, suitable for replacing called bonds and other low-yielding issues. Since in the interim, however, the problem has if anything become more pressing, this discussion is accompanied by an extensive portfolio of issues well adapted for inclusion in a program in which the investment emphasis is placed on safety of principal funds and dependable income.

Although the various issues comprising this portfolio have been selected with extreme care, there is no intention of deluding the reader into accepting either the bonds or preferred stocks as being of the highest grade. They are not. They are, however, *good* investment issues. By any of the recognized systems of investment rating they would be labelled, second grade. This, however, is a relative classification which in no way implies the presence of questionable security or speculative factors. In no instance, among the listed bonds and preferred stocks, has there ever been occasion to doubt the ability of issuing companies to meet promptly all fixed charges or preferred dividends. Price fluctuations in the past have in a considerable measure reflected changing market conditions, rather than any marked changes in the degree of investment value represented by these issues.

Both in the case of the selected bonds and preferred stocks, care has been exercised to avoid issues which might be subject to early call. However, in order to practically preclude the possibility of capital loss, the majority of issues will be found available at prices at or below their earliest call figure. Of the two or three issues quoted slightly above their call price, the premium is not large in relation to the yield obtainable, even in the event of early redemption.

All of the common stocks listed have paid continuous dividends for at least twenty years. Certainly, it would seem that any common stock which has "paid off" in dividends year in and year out over the past two decades has been stamped with an investment hallmark. In addition to the factor of dependable income offered by this group of common stocks, a number of them, those identified with expanding and growing industries, promise important price appreciation over a period of time.

Investment Security and Dependable Income

Bonds

Issue	Call Price	Recent Price	Current Yield %
Florida Power 1st 4's '66	105	97	4.12
N. Y. State Elec. & Gas 1st 4½'s 1980	102½	104	4.33
Iowa-Nebraska Light & Power 1st 5's 1957	102½	102½	4.85
Minneapolis Pwr. & Lgt. 1st & Ref. 4½'s '78	101¾	102	4.41
No. Indiana Pub. Serv. 1st & Ref. 4½'s 1970	104	104¼	4.30
Koppers Co. 4's 1951	104	103	3.88
Remington-Rand 4¼'s 1956	105	104	4.09
Loew's, Inc. 3½'s 1946	103	103½	3.40
Champion Paper & Fibre 4¾'s 1950	105	104½	4.50
Armour & Co. (Del.) 1st 4's 1957	105	100	4.00

Preferred Stocks

Issue	Call Price	Recent Price	Current Yield %
Public Service of N. J. $5	NC	110	4.55
Household Finance $5	110	110	4.55
Standard Brands $4.50	110	108	4.17
Firestone Tire & Rubber $6	105	105	5.71
Hershey Chocolate $4 (b)	NC	109	4.59(b)
Westvaco Chlorine $1.50	33	32	4.70
Diamond Match $1.50	NC	42	3.57
Southern California Edison "B" $1.50	28¾	29	5.17

Common Stocks (a)

Issue	Dividend	Recent Price	Yield %
American Snuff	3.00*	66	4.55
Beech-Nut Packing	4.00*	120	3.33
Du Pont	3.25†	148	....
Eastman Kodak	6.00*	168	3.57
International Bus. Mach.	6.00*	180	3.33
Kroger Grocery	1.60	26	6.10
Procter & Gamble	2.00	60	3.33
United Fruit	4.00	80	5.00
Woolworth	2.40	48	5.00
Wrigley	3.00*	80	3.75

(a)—All issues listed have paid continuous dividends for twenty years and longer. (b)—Participates up to an additional $1 a share annually with common. Has paid $5 in each of past five years. *—Plus extras. †—Paid 1938.

Sole Equity vs. Leverage

Among common stocks which is the more desirable, the issue which has sole, or practically sole, equity in a company's earnings, or the issue which is featured by a high leverage factor, that is, preceded by substantial quantities of bonds and preferred shares? It all depends, naturally, whether one is weighing the merits of a common stock as a bona fide investment medium or as a trading vehicle.

There are many investment-minded persons who consider it wholly unorthodox to mention investment and common stocks in the same connection. They contend that the first thought when an investment is made should be safety of principal, which automatically eliminates consideration of common stocks. Right or wrong though this viewpoint may be, the fact remains that there are a sizable number of common stocks which command considerable investment respect. We do not believe that there is any investor so naive as to expect that once he has selected a particular issue in which to place his money—high grade bond or speculative common stock—that from that time on he will show no loss, his investment either remaining completely static or steadily enhancing in value. Even the best of bonds over a period of time may show a 20 per cent fluctuation in value, and whether or not the bond has met the primary test of safety will depend largely upon whether the holder is forced to sell at a loss or whether he is able to hold on until its value is restored.

The fact is there are quite a number of common stocks, which had they been acquired even in the boom year 1929 and held through the trying years of the early '30's, would have proven much more reliable from the standpoint of income and security of principal than would many bonds and preferred stocks which rated quite high from an (*Please turn to page 307*)

Present and Future Leaders in Building Materials

Construction Pointing Up

BY MONROE E. MARSHALL

CONTRACTS awarded for new construction and engineering work during May represented the largest dollar volume for that month since 1930. According to figures compiled by F. W. Dodge Corp. covering thirty-seven states east of the Rockies, total contracts for May amounted to $308,487,000, a gain of 9 per cent over May, 1938.

Particularly significant in current statistics are those relating to private construction. In May, for example, private construction totaled $173,730,000, a gain of 25 per cent over last year, and bringing the net gain in this class of construction for the first five months of this year up to 36 per cent ahead of the volume for the same period of 1938. Not only has the total volume been rising steadily this year, but private construction has been accounting for an increasingly larger proportion of all building activity. In May of this year private construction accounted for 56 per cent of the total, compared with 49 per cent a year ago.

From the preceding, therefore, it may be concluded that such factors as the ratio of rents to building costs, financing costs and values in new homes are favoring the prospective home owner or builder.

Recent estimates have placed total residential building in the second quarter at about $355,000,000, which would bring the total for the first six months up to nearly $650,000,000, an increase of 60 per cent over the initial six months of 1938. Although recently the rate of increase in construction activity has shown a tendency to level off, reliable estimates look for residential building to be well sustained into the third quarter. If third quarter totals approach $350,000,000, this would put the period on a par with the second three months, and indicate a gain of 30 per cent over the third quarter of 1938, as compared with a 45 per cent increase shown in the second quarter of this year.

Activities of the Federal Housing Administration now afford one of the most reliable means of gauging the near term trend of construction. More than half of the new mortgages now being placed are insured by the F H A. In the first five months of 1939, mortgages selected for appraisal by the F H A totaled $500,000,000, a gain of 40 per cent over the same period of 1938, while in the same period mortgages accepted for insurance by the F H A totaled $285,000,000, an increase of 48 per cent over the showing in the first five months a year ago.

Courtesy Celotex Corp.

Exhibit house at the N. Y. World's Fair, which demonstrates the application of Celotex products.

About 72 per cent of these mortgages are for new homes.

Thus far this year mortgages accepted for appraisal by F H A have been averaging about $25,000,000 weekly. As a result of the Presidential signature, early in June, of amendments extending certain F H A functions which would have expired on June 30, all doubts as to the continued availability of F H A financing facilities have been removed, a condition which can doubtless be counted upon to aid in sustaining, if not bettering, the five-months' average of mortgage applications.

Prior to the final passage of these amendments, the F H A had been holding up $44,000,000 in rental-housing projects and the probabilities are that other sizable group-mortgage projects were being deferred. Amendments have authorized an increase to $4,000,000,000 in the amount of outstanding mortgage insurance obligations which the F H A may have at one time. Previously, the limitation was $3,000,000,000. The outstanding principal obligations of F H A at the present time amount to $1,400,000,000, not including about $400,000,000 in outstanding commitments to insure. The increased authorization, therefore, permits a potential expansion of more than 100 per cent in F H A insured mortgages.

These F H A amendments also continued another important provision bearing on the prospects for suppliers of building materials and home equipment. Insurance of modernization loans has been extended for two years from June 30. These loans are made available through established lending institutions to property owners for modernization, repair alteration and improvement. Such loans are restricted to a maximum of $2,500 with maturity limited to three years. Thus far the average loan of this type has been for $400, with an average maturity of two and one-half years.

According to the F H A, applications for modernization loans are being received at the rate of 1,500 daily. Since February, 1938, when these loans were restored to the Housing Act after a lapse of one year, a total of 547,027 has been issued, having an aggregate face value of $256,000,000.

Another favorable augury in outlook for residential construction is the encouraging rate at which the Home Owners' Loan Corp. is disposing of distress properties. Heretofore, the existence of large numbers of these older homes on the market acted as a very definite drawback to the construction and sale of new residences. Moreover, the H O L C recently reported that nearly 85 per cent of its mortgages were in satisfactory condition, a new high record.

Rounding out the prospect for residential construction are the favorable implications to be drawn from the marked acceleration in the rate at which group mortgages are being turned into individual mortgages. This trend is indicative of substantial sales on the part of large scale contractors and professional builders.

In the final analysis, however, the ability of building and construction to hold and expand their recent gains rests mainly upon the willingness and ability of buyers to sign on the dotted line and obligate themselves financially for set monthly payments which may run as long as twenty-five years. European war scares have undoubtedly led many potential buyers to postpone home ownership, but thus far the effects appear to have been confined principally to the Eastern seaboard.

Leading Building Material Suppliers—1929 and Today

Company	Sales (000,000's) 1929	Sales (000,000's) 1938	Net Income 1929	Net Income 1938	Divs. Paid 1929	Divs. Paid 1938	Recent Price of Com.
Alpha Portland Cem.	11.4(a)	6.3	1.8(a)	0.2	3.00	1.00	16
Am. Rad. & Stan. San.	144.6	87.0	20.0	d0.4	1.12½	0.15	12
Celotex Corp. (b)	10.3	9.1	1.5	0.5	3.00	None	12
Certain-Teed Products	NS	14.6	d1.3	0.2	None	None	8
Crane	NS	74.3	11.6	0.4	1.69	None	24
Devoe & Raynolds	16.2	11.4(e)	1.1	d0.2	3.00	2.00	24
Flintkote	NS	15.1	0.7	0.8	1.50	0.60	21
Glidden	38.3(a)	44.0(a)	3.0(a)	0.2	1.62	0.50	18
Holland Furnace	18.7	11.3	2.2	1.2	2.75	2.00	40
Iron Fireman	3.1	5.7	0.9	0.6	1.00	1.20	17
Johns-Manville	62.0	46.9	6.6	1.5	3.00	0.50	75
Lehigh Port. Cement	19.3	12.1	2.7	0.7	2.50	1.00	24
Lone Star Cement	28.4	20.5	4.95	3.13	4.00	3.00	46
Masonite	NS	6.0	NS	1.1	NS	1.50	40
Minn.-Honey'l Reg	6.2	11.3	1.4	1.0	1.00	2.00	61
National Gypsum	NS	9.8	NS	0.9	NS	None	12
National Lead	NS	65.2	10.2	4.3	0.50	0.50	21
Paraffine Cos	NS	11.0(f)	2.7	1.3(f)	4.25	3.00	46
Pitts. Plate Glass	NS	64.4	11.6	6.5	3.00	1.75	101
Reynolds Metals	12.9	15.0	4.0	0.6	0.28	0.15	8
Ruberoid	NS	13.7	0.5	0.5	1.33	0.60	22
Sherwin-Williams	62.3(g)	NS (g)	6.0(g)	2.2(g)	4.00	3.00	89
U. S. Gypsum	NS	35.1	5.1	4.7	1.60	2.00	93
Walworth	NS	10.5	2.0	d1.3	1.40	None	5
Yale & Towne	18.7	13.9	2.6	0.1	5.00	0.60	23

(a)—Year ended Oct. 31. (b)—Company reorganized 1935. (c)—Class A. (d)—Deficit. (e)—Year ended Nov. 30. (f)—Year ended June 30. (g)—Year ended Aug. 31. NS—Not stated.

It is difficult to perceive what else can be done to encourage the building or a purchase of a home, although talk is being heard of more liberal F H A financing terms as a part of the contemplated Government spending-lending program for 1939-40. Already, however, competition among banks and other institutions for F H A mortgages in the large urban areas has had the effect of lowering the interest rate from the maximum of 5 per cent to 4¼ per cent. Gradually expanding industrial activity, accompanied by increased employment, larger consumer purchasing power and a feeling of greater individual economic security will probably do more than anything to sustain and expand private building activity.

The Government's housing and slum-clearance program has been very slow in getting under way, with difficulties encountered in obtaining adequate and contiguous land in furtherance of slum-clearance projects. Conflicting municipal and Government interests have also delayed contract awards. The United States Housing Authority has been granted $800,000,000 for slum clearance and low-rental projects but up until the end of May total contracts awarded were less than $60,500,000, although all but $144,000,000 of the original sum had been earmarked. Earlier this year Government officials estimated that actual work might begin this year on some $300,000,000 of accepted projects. Although recently the actual contracts have been placed in increasingly larger numbers, this estimate appears to have been over-optimistic. Somewhere between $150,000,000 and $200,000,000 will probably prove to have been closer to the realities. (*Please turn to page* 307)

As the Trader Sees Today's Market

— Selection of Trading Vehicles
— Timing the Fast Movers

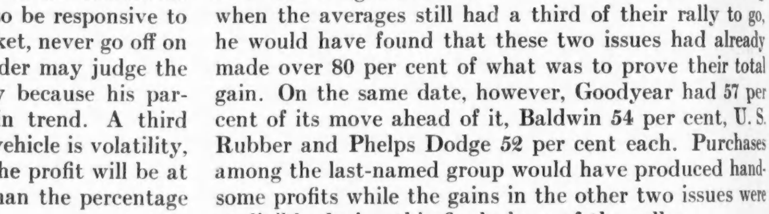
BY FREDERICK K. DODGE

Every trader has certain pet issues he buys and sells as his opinion of the market outlook changes. He may use Chrysler or U. S. Rubber to take advantage of a rally he sees in the offing, not necessarily because he has analyzed these stocks and found them in a long-term advancing phase, but because he knows they have certain qualities which will be helpful to him in his trading. One requirement is activity, implying a continuous market, frequent sales, close quotations. This allows flexibility and a chance to execute decisions immediately without waiting to haggle through a long series of bids and offers and without more than fractional fluctuation from the last sale. The issue must also be responsive to the same influences as the general market, never go off on a tangent by itself. Otherwise the trader may judge the market correctly and yet lose money because his particular stock fails to follow the main trend. A third essential quality for the ideal trading vehicle is volatility, so that if calculations work out well the profit will be at least equal to and preferably larger than the percentage change in the averages.

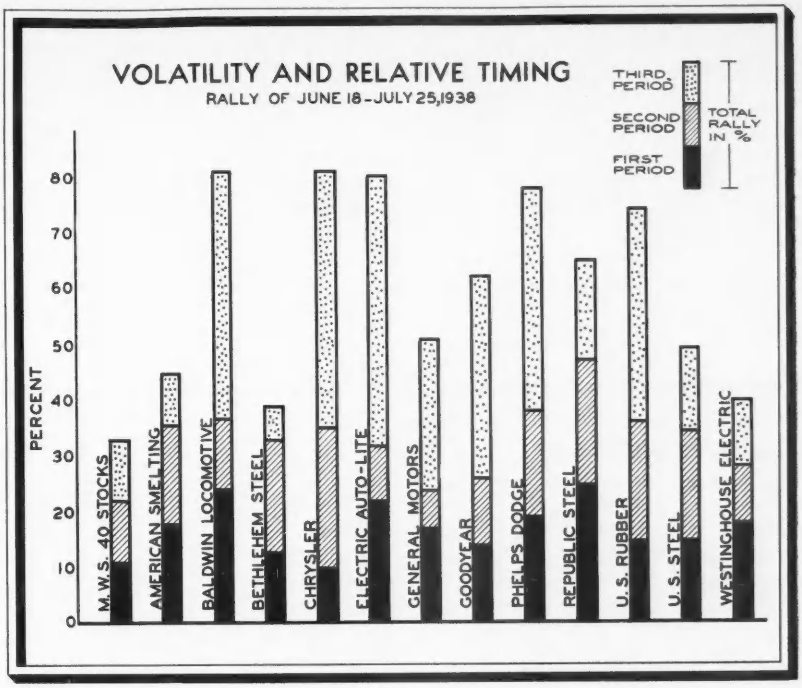
All of these qualities are fairly easy to gauge and the experienced trader does so without conscious effort. Theoretically at least, it is necessary only to judge the direction of the averages correctly, then trade on that conviction in one of the more volatile issues. The hitch in actual practice is that a move is usually well under way and sometimes nearly over before the trader feels justified in taking a position. Then he must judge individual equities not only for the three qualities already discussed but for another much more difficult to calculate but extremely important if his trading is to result in cash profits as well as moral victories.

To illustrate the problem suppose we go back to the rally of just over a year ago, taking the move in the averages from June 18 to July 25 as a complete unit. Our 40-stock average gained 33 per cent between the two dates without any sizeable reaction. The chart on the opposite page shows a dozen issues each of which proved more volatile than the averages, some advancing 80 per cent or more. Now suppose that when the rally in the averages was two-thirds over the trader who had held off until then became convinced it was worth-while getting aboard, even though he realized that the gains already registered might leave relatively little to be garnered from that particular move. His choice of stocks became crucial to the success of his trade. Two-thirds of the rally was completed by the last day of June, measured by gains in the averages, not by elapsed time in the move. If he had bought Bethlehem Steel or American Smelting when the averages still had a third of their rally to go, he would have found that these two issues had already made over 80 per cent of what was to prove their total gain. On the same date, however, Goodyear had 57 per cent of its move ahead of it, Baldwin 54 per cent, U. S. Rubber and Phelps Dodge 52 per cent each. Purchases among the last-named group would have produced handsome profits while the gains in the other two issues were negligible during this final phase of the rally.

Before going further, the possession of any formula to solve this problem, to calculate the relative gains remaining ahead at any given time, should be disclaimed. Many successful traders have never had to state it to them-



selves, knowing intuitively when an issue is "behind the market" and when it is ahead. Whether one attempts to analyze it or not, though, what might be called the internal timing of stocks in a move is the key to getting the most out of good trend judgment. It is naturally subject to an infinite number of variables which may produce good news for the motors and bad news for the steels on the same day, but familiarity with this timing, however rough, must be acquired through either experience or study or preferably both.



The chart showing last summer's rally in percentages of the levels of individual issues at the starting point might be duplicated by another based on the rally in the autumn from late September to late October. Many differences in timing appear between the two moves, but certain similarities are noticeable. In both of them General Motors and Republic Steel scored a large part of their total gains in the first stage. U. S. Steel struck its best pace in the middle third of both rallies. The tendency of certain issues to get started late was most marked and included such stocks as Chrysler, Baldwin, Phelps Dodge, Goodyear and U. S. Rubber, with Westinghouse Electric also in this category in the September-October rally.

A good part of the action in short phases of rally or decline is due to the size of the bear position. Figures are unfortunately not available on the exact dates, but some conclusions may be drawn from those published at the end of each month. For instance, short positions reported at the end of May, 1938, were undoubtedly about the same on the 18th of the following month, in view of the low volume and lack of incentive to trade. General Motors, we know, was a relatively early starter in the rally which then set in, while Chrysler in the same industry was slow in the first stage. The short position in General Motors at the beginning of June amounted to 68,987 shares and at the end of the month had been reduced to 41,057, meaning that almost 18,000 shares were covered, the bulk of them certainly during the rally. Chrysler, on the other hand, harbored a short interest of 102,051 shares at the beginning of June and 99,290 shares were still holding their position at the end of the month. Chrysler made its largest gain in the final third of the move in the averages, or between July 1 and 25. During a period very closely approximating this over 36,000 shares were covered by the bears, while less than 7,000 shares of General Motors were being covered.

A compact and clear-cut move in the other direction is the recent decline of 24 per cent in the averages from March 10 to April 8. Although the two rallies brought out the tendency of the leaders analyzed to make the greater part of their gains in the late stages of the moves, the slump exhibited directly contrary action. Here the big portion of individual declines was registered in the early part of the recession, leaving relatively little to be lost in the final stage. For example, averaging the action in the two rallies Phelps Dodge made 54 per cent of its gains in the final third of the move; but in the slump the same issue suffered over 80 per cent of its total markdown in the first two-thirds of the move, leaving only 19 per cent to be covered while the averages were covering 33 per cent of their total move. Goodyear averaged 52 per cent in the last phases on the upside, only 23 per cent on the downside. Comparable figures for U. S. Rubber were 49 per cent and 22 per cent, for Baldwin Locomotive 57 per cent and 27 per cent. Chrysler was a partial exception with a loss of 38 per cent of its decline in the final stage of the slump, during which the averages of course were registering only 33 per cent of their total loss. Nevertheless, Chrysler had averaged late gains of 47 per cent or a considerably larger proportion than its late slump and close to 50 per cent larger than the one-third advance of the averages in the rallies.

Using the two advances depicted in the accompanying charts, plus the rally of last September to October, plus the decline of March and April in this year, an idea of relative volatility apart from timing may be gained. The average move in the 40-stock index was 23 per cent of its respective starting levels. Baldwin Locomotive was the most volatile of the issues shown, on a percentage basis, with average moves of 58 per cent. U. S. Rubber was next with 44 per cent, followed by Chrysler—43 per cent, Phelps Dodge—42 per cent, Goodyear—41 per cent, Republic Steel and Electric Auto-Lite—39 per cent, General Motors and American Smelting—31 per cent, U. S. Steel and Westinghouse Electric—29 per cent, and Bethlehem Steel—28 per cent. The two leading steels hurt their records with their action on the rally to June 10, gaining only 10 per cent to 12 per cent while the market averages were rising 17 per cent.

The slowest of these issues (*Please turn to page* 312)

For Profit and Income

Gasoline Price Changes

Following a number of 1/8 cent increases in scattered mid-continent areas this spring, Sinclair Refining recently took the bull by the horns and jacked tank wagon gasoline prices 1/2 cent a gallon throughout all 42 states in which it operates. The move was popular among other petroleum companies which have been scarcely able to squeeze a profit from the narrow spread between crude and refined prices, and was promptly followed by some 20 major concerns operating in almost all states east of California. The trade's optimism was tempered, however, by the failure of Atlantic Refining and Standard of New Jersey to go along in the important consuming area comprising Pennsylvania, New Jersey, Maryland, Delaware and the District of Columbia, and the consequent action of Shell Union and Texas Corporation in rescinding mark-ups in this territory in order to meet competition. Also, continued heavy refinery runs, more than offsetting the increase in consumption, tend to hold enthusiasm well in check. However, if the new prices are generally maintained, the industry's integrated units stand to benefit from improved profit margins.

Armour Plans Refinancing

Recent market strength of the preferred and common stocks of Armour & Co. reflect the prospective merger of the parent Illinois company with the Delaware subsidiary and redemption, at call price of 110, of the entire $55,782,500 issue of Armour of Delaware 7% guaranteed preferred stock. It is tentatively expected that funds for the latter operation will be raised by means of a $30,000,000 R F C loan and the sale of about an equal amount of debentures. Annual saving in charges may run as high as $2,000,000 or the equivalent of half the total arrears on the 532,996 shares of Armour of Illinois $6 prior preferred. In addition, substantial tax savings may be realized from the merger; last year, for example, these would have amounted to approximately $1,000,000. With Armour's operations for the year ending October 31 expected to be comfortably in the black as contrasted with a sizable deficit last year and with substantial economies indicated as a result of refinancing and merger, the position of prior preferred and common stockholders has been materially improved.

Gendreau

Half-cent rise in gasoline prices means little to consumers, much to refiners.

Rail Operations Improve

Though a number of roads are plowing increased revenues back into maintenance, indications are that the nation's Class I carriers as a whole will be in the black this month with fixed charges fully covered for the first time this year. May operating figures in most cases were markedly better with Union Pacific and Southern Pacific showing to particular advantage. Carloadings thus far in June have been running about 10% ahead of a year ago, a heavy winter wheat movement, continued gains in soft coal and ore shipments and maintained traffic in the miscellaneous category contributing importantly to weekly totals. Though prospects for Congressional aid for the railroads at this session are rapidly diminishing, current and prospective improvement in the carriers' revenues is more helpful than any measures of the sort that might have been expected from Washington.

Leading the List

Stocks recently moving into new high ground for the year are mainly such storm cellar favorites as American Chicle,

Procter & Gamble, National Biscuit, Safeway and the like but there are also a number of issues among the select group that derive at least some of their buoyancy from longer range growth possibilities. American Airlines, for example, which is showing the best revenue and earnings progress among the renascent air transport companies. Also Scott Paper whose backlog of unfilled orders continues to mount despite capacity operations and which is spending $1,500,000 on enlargement of production facilities over the next few months. Another is Cluett Peabody whose first half earnings are estimated at $1.50 to $1.75 per share; the company's fall orders are up 20 to 40% from a year ago and its Sanforizing process is bringing in steadily larger royalties. Finally, there is General Foods whose Birdseye division, after a long period of development, has at length been placed on what promises to be an increasingly profitable basis.

Outlook for Distillers

The principal liquor companies, though now entering the dullest part of the year, are expected to report second quarter earnings about on a par with first quarter results. This would mean a June period net in the neighborhood of 67 cents a share for National and 65 cents for Schenley as compared with 65 cents and 48 cents earned respectively in the second quarter of 1938. From a somewhat longer term viewpoint, the industry appears to be in for a period of competitive readjustment the severity and extent of which cannot readily be foretold. After several years of building up inventories, the industry is now fully stocked. Increasing quantities of bonded liquor are now becoming available and, as was to be expected, prices are softening all along the line. Not a few of the smaller distilleries are finding it more and more difficult to keep going. With further unsettlement likely among the marginal units, even the industry's leaders are apt to feel the repercussions of an adjustment period that has been in the cards ever since prohibition's repeal and now at length seems to be at hand. While not regarded as serious, the situation will bear watching.

Developments in Companies Recently Discussed

St. Joseph Lead, which reports earnings semi-annually, is expected to show substantial improvement this half over the first six months of 1938 when only 2 cents a share was earned. Lead buying has been fairly brisk since mid-April and the recent price increase will help out quite a little from here on.

Commonwealth & Southern reports net income for five months ended May 31, 1939, equal, after preferred dividend requirements, to 10 cents per share of common stock, as compared with 3 cents a share for the first five months of 1938. Growing Congressional antipathy to T V A may foreshadow brighter times for the company.

If France goes through with its plan to replace 5, 10 and 20 franc silver pieces with nickel coins, International Nickel will be the gainer. Earnings for the first four months of 1939 approximated 80 cents per share, about the same as a year ago, but business has slackened somewhat recently.

Second quarter operations of Eaton Manufacturing are expected to result in a profit of 60 to 70 cents a share, as compared with a loss of 21 cents a year ago and a profit of $1.03 in the March period of this year. Company has recently licensed a leading British automotive parts maker to manufacture its hydraulic tappets in Great Britain in line with its policy of licensing foreign manufacturers to produce its patented products abroad rather than investing in foreign countries.

Celotex Corp. earned 24 cents per common share in May against 9 cents for the like month of 1938. If surrent earnings gains are maintained through remainder of the fiscal year ending October 31, the 60 cents per share reported last year should be topped by a comfortable margin despite a poor comparative showing for the six months ended April 30. Sales of Celotex board in the first half of June ran 50 per cent above year earlier levels, reflecting increased building activity. (See special article on page 288.)

It is estimated that net income of Columbian Carbon this half will be in the neighborhood of $2.90 per share or about 13 per cent above the $2.56 reported for the initial six months of 1938. The improvement has been largely due to increased volume for carbon black prices, despite the industry's improved statistical position, remain depressed and no advance is anticipated when sales contracts are renewed July 1.

All Ears

Hearings on the integration plan of Columbia Gas & Electric recently begun before the S E C are expected to clarify the Commission's policy on a number of major points relating to the general problem of utility integration under the Act of 1935. * * * Proposed elimination of $50,000,000 Southern Railway 6% and 6½% development and general mortgage bonds would, if effected, remove the road from the so-called borderline class of carriers. But since the bonds are non-callable, holders are likely to require something more than subscription rights to the common stock at $45 a share, now selling around $15, which have been proposed as consideration for the privilege of calling the issues. * * * Studebaker factory sales in May were the largest for that month since 1929 and three and a half times the total of May a year ago, indicating that the company's new light weight "Champion" is going over with a bang. Competitors who have dismantled the car after grueling road tests have been reported, off the record, as genuinely surprised at the way parts have stood up. * * * Second trustee's report to creditors and stockholders of McKesson & Robbins is due July 7. * * * Reinstatement as of July 1 of Federal milk marketing order in the New York metropolitan area is not expected to affect operating results of Borden and National Dairy which will pass higher prices along to consumers. * * * Passage of the new neutrality bill may well bring a substantial upturn in aircraft orders from abroad. Some countries have been holding back business because under existing legislation deliveries cannot be made in time of war and foreign governments have feared a possible outbreak of hostilities before their orders could be filled.

Stocks Selected for Profit In Next Market Upswing

Six Diversified Issues in Favored Industries

Selected by THE MAGAZINE OF WALL STREET STAFF

Hercules Powder

Recent Price	1939 Price Range High	1939 Price Range Low	Dividend
72	86	63	$1.60

In recent years Hercules Powder Co. has been making notable progress in expanding its activities to include an increasing number of products. Although the company is still a leading producer of blasting powder and explosives, these products have been overshadowed by such lines as nitro-cellulose, cellulose naval stores and various other chemical products. As a result of this increased diversification of output, the company's consumers now include such industries as paper manufacturing, autobile production, mining, quarrying and general manufacturing. In common with most chemical enterprises, Hercules Powder engages in large scale research activities, approximately $900,000 having been expended for that purpose last year. Late in 1938, the company announced the construction of a new plant for the production of ethyl cellulose. Another product recently developed is "Stabelite," a hydrogenated rosin. This product is reported to be of such high quality that it is expected it can be used in competition with other natural gums and for floor varnishes and finishers.

Relying in a substantial measure upon general industrial activity, the company's sales and earnings are naturally sensitive to cyclical changes in the course of general business. This is substantiated by the pattern of the company's operations in 1938. Despite sustained improvement in the last five months of the year, the company's physical volume of business was about 16 per cent lower than in 1937. Earnings were also adversely affected by higher costs resulting from the necessity of utilizing high cost inventories in a declining market.

For the full 1938 year, the company reported profits totaling $3,089,017, equal, after preferred dividends, to $1.95 a share on 1,316,710 shares of common stock outstanding. The showing last year compared with net of $4,440,273, or $2.97 a share in 1937.

The company's operations in the initial quarter of the current year registered substantial improvement over the corresponding months of 1938. Sales increased nearly $1,000,000 and net income of $1,087,322 was equal to 73 cents a share for the common stock, comparing with net profit of $656,027, or 40 cents a share, in the March quarter of last year. Current assets as of March 31, last, including cash items of over $10,000,000, amounted to $21,692,486 and current liabilities were $2,445,355.

Dividends paid to common stockholders in 1938 totaled $1.50 a share and thus far in the current year disbursements have been at the rate of 40 cents a share quarterly. With current dividends being covered by a substantial margin, and a strong financial position permitting considerable latitude in the matter of dividends, further evidence of improvement might well be accompanied by an increase in the present rate.

Like most units identified with the chemical industry, the company's shares command a substantial premium. However, with the benefit of further recovery, the company, as it has ably demonstrated in the past, could readily expand earnings to a point which should ultimately justify favorable consideration of the shares at current market quotations.

Montgomery Ward

Recent Price	1939 Price Range High	1939 Price Range Low	Dividend
51	54⅜	40⅛	$1.00

Although still rated the second largest mail-order enterprise, strictly speaking, Montgomery Ward now ranks as one of the foremost retail organizations in the country, with the bulk of its sales derived from retail stores operated in both large urban and smaller communities throughout the nation. The company has become virtually a chain department store organization and successful to the point where it has been able to give stiff competition to some of the older established department stores in territories where its retail units are located.

For the fiscal period ended January 31, last, dollar

sales totaled $413,961,241, as compared with $414,090,544 in the previous fiscal period. Volume sales, on the other hand, were about 5 per cent ahead of the 1937 fiscal period, the slight decline in dollar sales having been entirely due to reduced selling prices. This upward trend of sales has been sustained with increasing vigor thus far in the current year. Sales in both April and May were the largest for those months in the company's history and for the four months' period ended with May net sales increased $18,838,390, or 15 per cent, a record level. The company reports that gains have been proportionately distributed throughout the mail-order and retail divisions.

Aided by a savings of $1,500,000 in Federal taxes, the company's net profit for the fiscal period ended January 31, last, was slightly ahead of the previous year, the total of $19,644,956, comparing with $19,210,029 in the fiscal period ended January 31, 1938. Applied to the 5,217,147 shares of common stock, earnings in these years were equal to $3.50 a share and $3.41 a share, respectively, after allowance for dividends on the $7 Class A stock.

From the recent trend in Montgomery Ward's affairs, it is rather apparent that the difficulties which the company encountered in the late 20's and early 30's have been fully overcome. Moreover, with the promise of further general business improvement this year, accompanied by gains in public purchasing power, the likelihood of additional important gains in both sales and earnings appears to be well supported. Preceded by only 205,000 shares of $7 Class A stock, the common stock offers an equity in an established and progressive enterprise favored by prospects which should make the shares increasingly valuable over the months ahead. Dividends are currently being paid at the rate of 25 cents a share quarterly.

Caterpillar Tractor

Recent Price	1939 Price Range High	Low	Dividend
44	55	38½	$2.00

Following the sharp drop in sales and earnings which occurred in 1938, the affairs of Caterpillar Tractor since the first of the year have shown a definite turn for the better. While the near term outlook does not appear to promise sizable gains, prospects are favorable for gradual but sustained progress toward recovery of more normal earning power.

By many, Caterpillar Tractor Co. is regarded as a manufacturer of farm equipment. This, however, is normally true only to the extent of about 10 per cent of the company's output. To be sure, farm sales are important but, primarily, the company must be classified as a leading manufacturer of machines for heavy tractor duty suited to road-building, mining, lumbering and the like. The company was one of the pioneers in the development of Diesel power and has for some time ranked as the largest manufacturer of Diesel engines, on a horsepower basis. Oddly enough, however, the company's Diesel engine business is unimportant from both a sales and earnings standpoint. A considerable portion of the company's Diesel production is used to furnish power for its tractors. Although many of the company's Diesel motors are utilized to furnish industrial power, it is doubtful that Caterpillar would find this business profitable, were it not for the low production costs realized through production of Diesel tractors.

For the year ended December 31, 1938, the company reported profits of $3,235,709, equal after dividend requirements on the 115,152 shares of 5 per cent preferred stock, to $1.41 a share for the 1,882,240 shares of common stock. This was a sizable decline from earnings of $10,168,689 or $5.24 a share in the preceding year. Responsible for a considerable measure of the decline in earnings last year was the drop of about $15,000,000 in sales to $48,246,139. In addition, however, the company was forced to contend with new competitive factors in its field. These took the form of price reductions which ranged up to 14 per cent on the company's tractors and up to 22 per cent on Diesel engines.

In each of the first five months of the current year, Caterpillar reported both sales and earnings ahead of the corresponding months a year ago. Aggregate net profits for the five months ended May 31, last, totaled $1,835,942, which, after allowing for preferred dividends, were equal to 85 cents a share on the outstanding common stock. This showing compares with $1,577,129, or 71 cents per share for the common in the first five months of 1938.

Current assets as of May 31, last, including over $6,000,000 cash, amounted to $32,208,733 while current liabilities were less than $3,500,000.

With current earnings running slightly in excess of the 50-cent quarterly dividend now in effect, plus the evidence of the company's strong financial position, continued disbursements on the common stock at this rate appear reasonably assured. For some months now the shares have been running in a narrow range between 40 and 44, which levels compare with a current high of 55 and a low of 38½. Conceivably, the large public works projects contemplated by the Federal Government over the next twelve months will be effective in stimulating demand for the company's products, and while the shares are essentially speculative, possibilities for substantial price recovery over a reasonable period of time are apparent.

St. Joseph Lead

Recent Price	1939 Price Range High	Low	Dividend
36	46¾	27¼	$1.00

St. Joseph Lead is the largest domestic producer of lead. While most of the leading producers of non-ferrous metals also include in their output lead, zinc, copper, gold and silver, and various new ventures of St. Joseph Lead have added zinc, cadmium and gold and silver to its output, the company remains essentially a producer of lead. All but a small portion of the company's lead production is mined in the Missouri Lead Belt, where St. Joseph Lead owns virtually all of the active mines. Missouri is one of the most prolific sources of lead in the world with a productive capacity exceeded only by foreign mines.

Lead mined in the company's properties has a high degree of purity, permitting the production of a premium product utilized in the manufacture of cable sheathing, acid tanks and foil brass. Location of the company's mines is in relatively close proximity to New

York and Chicago, the two largest consuming centers, which gives the company an important competitive advantage through sizable freight differentials.

Notwithstanding the highly volatile nature of the lead mining industry, St. Joseph Lead over the past ten years has paid nearly $25,000,000 to common stockholders. The year 1932 was the only one in which the company had a loss, while 1933 was the only year in which no dividend was paid. The latter year was the first time in forty-five years that the company was compelled to pass the dividend.

In 1937, St. Joseph Lead reported the largest profit since the historical year of 1929. Aided by the profitable liquidation of a large inventory, net in that year of $7,553,987 was equal to $3.86 per share for the capital stock, before depletion. In view of the extraordinary conditions which contributed to the company's 1937 showing, earnings in that year cannot be accepted as any reliable measure of the company's possibilities under more normal conditions. For that matter, neither can 1938 which was a poor year in the first half and a fairly good year in the final six months. Sales declined some $13,000,000 last year and net income, after depletion, totaled $1,331,256 and was equal to 68 cents a share on the outstanding stock. Dividends totaling $1 a share were paid during 1938.

The lead industry this year has been aided by a much improved statistical position. This situation has been reflected in generally higher prices and while lead prices have been alternately advanced and reduced on several occasions, two recent advances raised the price to 4.90 cents, which compares with 4.75 cents prevailing in mid-June. Moreover, demand has been exceptionally well sustained in recent weeks, and has been well diversified to include all the consumers of lead. Under the circumstances, it is a reasonable assumption that earnings in the first six months will be appreciably better than the showing in the corresponding period a year ago, in which net of $46,184 was equal to only 2 cents a share for the common stock.

While essentially a longer term proposition, the shares, at recent levels around 36, would appear to offer sound speculative value.

Inland Steel Co.

Recent Price	1939 Price Range High	Low	Dividend
76	94⅝	67	$2.00

Identified with an industry characterized by extremely severe cyclical fluctuations, Inland Steel has nevertheless been conspicuously successful in avoiding the heavy losses suffered by practically every other leading steel producer in the past. On more than one occasion, the company has demonstrated its ability to operate at a good profit, when the other major steel units were showing sizable losses. Evidence of the company's ability in this respect was its showing last year. Net of $4,916,203, although sharply below the $12,665,317 and $12,800,545 reported in 1937 and 1936, respectively, was in sharp contrast with the heavy losses reported almost uniformly throughout the steel industry. Ability of the company to show any profit at all in the face of the drastic decline in steel production and substantially lower prices last year, attests several fundamental factors with which the company is favored.

Strongly entrenched as the second largest producer in the Chicago steel industry, with aggregate productive capacity rated at about 3,000,000 tons of steel ingots, Inland Steel has in recent years followed a foresighted policy of acquiring going concerns whose activities serve as a natural complement. A broad program of diversification to include both the lighter types as well as heavy steel tonnage has been substantially completed. Plants are modern and the company is rated as one of the lowest cost producers in the industry. Acquisitions by the company in recent years include Joseph T. Ryerson & Son, one of the largest merchandisers of finished and semi-finished steel products in the country; Milcor Steel Co., specializing in the manufacture of an extensive line of steel building materials; and early this year, Wilson, Bennett Mfg. Co., manufacturers of steel containers. Sales of subsidiary units contribute upwards of 40 per cent of the company's total and, in a normal year, subsidiaries can probably be counted on to contribute at least one-third of the company's earnings.

Earnings applicable to the 1,577,005 shares of capital stock outstanding last year were equivalent to $3.12 a share, comparing with $8.05 a share in 1937. Improvement in the company's operations which started late in 1938 was well sustained in the initial quarter of the current year and net of $2,024,601 was equivalent to $1.28 a share on 1,578,600 shares of capital stock. This contrasted with net of $923,076, or 58 cents a share in the March quarter of 1938. On this basis, earnings for the first half year promise to be substantially in excess of $2 a share.

An important factor in making the company's consistently profitable showing possible has been a modest capitalization. Funded debt totals only $51,800,000, which is the only capital obligation ahead of the common stock. At the end of last year, total current assets, including some $17,500,000 cash and marketable securities, amounted to $48,140,364, while current liabilities were less than $8,000,000.

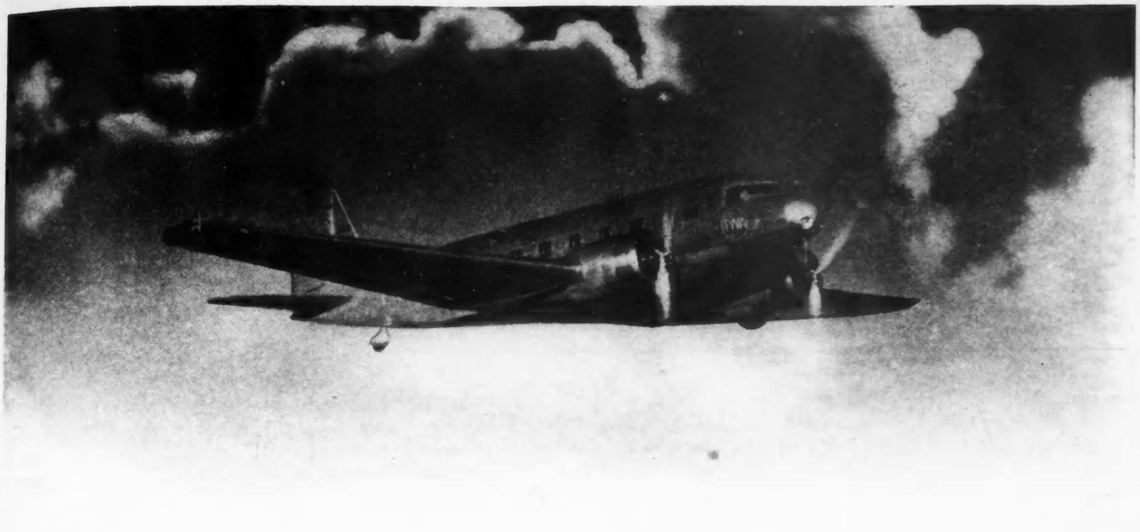
Last year total dividends paid on the common stock amounted to $2.50 and thus far in the current year payments have been made at the rate of 50 cents per share quarterly.

Recently quoted around 75, the shares are selling nearly 20 points below their 1939 high of 94⅝. Although important price recovery from prevailing levels will doubtless await a more clearly defined outlook for the steel industry, the current market appraisal appears conservative in relation to the company's normal earning power, and longer term commitments at this time should prove profitable.

U. S. Pipe & Foundry Co.

Recent Price	1939 Price Range High	Low	Dividend
41	49	35	$2.00

For many years, U. S. Pipe & Foundry Co. has been credited with being the largest domestic manufacturer of cast iron pipe. The company's products are used principally in the construction of water mains and the distribution of artificial gas. (*Please turn to page* 310)



Courtesy T.W.A.

Latest Developments in Aircrafts

It is expected that the Army will receive bids from aircraft manufacturers early in July for 2,467 planes and spare parts to cost approximately $105,000,000. Present plans call for bringing the Army's air strength up to 5,500 planes within the next two years which means that the aircraft industry will have to deliver more than 3,500 planes within that time.

* * *

Deliveries of Douglas Aircraft in the three months ended May 31, the second quarter of its fiscal year, totalled about $6,000,000 as compared with $6,408,020 in the preceding quarter and $9,991,335 in the second quarter of last year. Thus earnings were somewhat lower—probably around $1.20 to $1.25 against $1.35 a share for the first quarter—but profit margins are considerably higher than a year ago when only $1.20 was reported on a 40 per cent greater volume of business.

* * *

Of the $2,721,558 of contracts awarded by the Army Air Corps in the first half of June, Curtiss-Wright walked off with the lion's share—$1,423,320—thus repeating its performance of May.

* * *

Passenger traffic of the transcontinental airlines continued at record levels during the first 10 days of June. Best increase was shown by American Airlines which carried 78.4 per cent more passengers than in the same period of 1938 and averaged 11.8 passengers per plane mile against 8 a year ago. United's passenger business was up approximately 40 per cent while Transcontinental & Western scored a gain of about 60 per cent.

* * *

Air voyagers to Europe via Pan American's newly begun service will pay $375 one-way fare and $675 round trip as compared with the minimum first class rate of $316 on the Queen Mary or Normandie. Baggage allowance is 55 pounds and flying time to Lisbon by way of the Azores is 22 hours. The company has also instituted a transatlantic mail service to England and Ireland by way of Canada and Newfoundland.

* * *

Second quarter earnings of Glenn L. Martin will amount to only about 35 cents a share as compared with 62 cents reported for the first quarter of this year and 68 cents for the second quarter of 1938. The profit decline is due to a temporary lapse in deliveries. Record output is scheduled for the second half of the year and perhaps as much as four-fifths of the full year's volume will come between now and December 31. Current backlog is close to $39,000,000 as compared with $13,903,006 on January 1.

* * *

United Air Lines' plan to acquire control of Western Air Express will, if approved by the Civil Aeronautics Authority, give the company direct access to Los Angeles and thus place it on a much stronger competitive footing with American and TWA. Most long haul passenger business is in and out of Los Angeles rather than San Francisco and at present United travelers either have to go out of their way through the latter city or change planes at Salt Lake City. Acquisition of Western would be by means of an exchange of shares.

* * *

Kansas City Southern, whose application to operate an air route between Kansas City and New Orleans is now under consideration of the C A A, will not be the first railroad to go into the air transport business. The Boston & Maine has been operating an extensive air service in Maine, New Hampshire and Vermont for some time.

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United Aircraft Co.

What is your rating of 100 shares of United Aircraft bought at 42 for income and appreciation? Will this company participate fully in future gains in the aircraft industry and the stock continue to sell at such a high price-earnings ratio? Is the financial position sufficiently strong to warrant larger dividends with increased earnings?—D. F., Dallas, Texas.

The activities of the United Aircraft Corp. cover such an extensive field that it stands to benefit materially from aircraft construction regardless of which company does the actual building. In addition to Pratt & Whitney "Wasp" and "Hornet" aircraft engines, the United Aircraft Corp. manufactures Chance-Vought military planes, Sikorsky flying boats and Hamilton propellers. The company's sales and earnings have recorded substantial gains in recent years, responding to the accelerated tempo of aircraft construction. Sales last year rose to the record total of $35,716,638 while the net profit was $5,426,275, or $2.05 per share, compared with a sales volume of $28,671,842 and net profit of $3,856,272 or $1.52 per share in 1937. In the first quarter of 1939 the rate of earnings gain was continued with 56 cents earned per share of common stock, as against 42 cents earned per share in the initial quarter of 1938. The company paid $1.25 per share in dividends last year, compared with $1 in 1937 and 50 cents in 1936. That a further increase in distributions will be witnessed during the current year seems assured as financial position is entirely satisfactory. The stock sells at a high price-earnings ratio, but the future for the company justifies this and we recommend retention for income and gradual enhancement in value.

New York, Chicago & St. Louis R.R. Co.

With the bituminous coal strike settled, is Nickel Plate common due for a sharp upmove? I have 50 shares that cost 63 and am anxious to be advised of the company's outlook. Have the possibilities of reorganization been entirely eliminated? How do bond payments stand now?

The report of the "Nickel Plate" for the four months ended April 30, 1939, showed a net loss of $121,973, after fixed charges, against $1,324,524 loss during the like interval of the preceding year. This performance reflects the rapidity with which earnings of this carrier respond to quickened industrial activity particularly in the steel and automobile industries which bulk so important in the Great Lakes region tapped by the road. Activity in the important steel industry gives evidence of further modest gains following settlement of the bituminous coal strike and this may well prove a partial offset to seasonal slowing down in the automobile manufacturing centers preparatory to model changeovers. Many economies have been effected by the management during recent years which find reflection in better relationship between net railway operating income and gross revenues which should become more apparent when and if general business conditions in the service area permit of a further increase in traffic volume. The serious problem presented by the $15,000,000 unsecured note maturity in October, 1938, has been successfully met through acceptance of an extension of the maturity for three years by all but a small number of holders. Despite the drain on working capital presented in meeting the principal due on some $2,000,000 of undeposited notes and $3,600,000 bond interest payments in March and April, finances remain in fair shape. Moreover, current operations are indicated at a level which will permit substantial additions to cash account. If general business conditions improve later in the year as appears distinctly probable, the road should be able to cover its fixed charges by a comfortable margin and show further progress in strengthening its finances. Thus, while the common stock continues in a speculative position and must be carefully watched in the light of rail legislative developments as well as the trend of earnings, we feel that operating prospects at the moment are sufficiently favorable to dictate further retention of the shares. With the 1938 note maturity successfully taken care of and with traffic comparisons likely to continue favorably with a year ago, there would seem to be no current need for reorganization.

International Nickel Co. of Canada, Ltd.

Shall I hold 150 shares of International Nickel which cost me 65? Do you think the growing demand for stainless steel will greatly increase earnings of this company? Are operating economies tending to offset higher wages, taxes and costs? What are the dividend prospects this year?—G. J., Los Angeles, Calif.

The uses for nickel are constantly increasing and the mines of the International Nickel Co. of Canada, Ltd., contain far and away the largest known source of this indispensable metal. While nickel and copper are the two most important metals produced by the company, its mines are also rich in gold, silver and platinum. The company's shares have a market second to none, as they are traded freely in this country, in Canada and several European countries. Hence, they are used as a means of transferring funds from one country to another and as a store of wealth outside the United States. Being a Canadian corporation, International Nickel is not bound by our Neutrality Act. However, the company has adequately proven itself a successful peace-time organization, largely through its active research efforts. The company earned $2.09 per share of common stock last year against $3.31 earned in 1937 while 62 cents per share was reported for the initial quarter of 1939 as compared with 66 cents per share in the similar period of 1938. The company appears to have good control over costs and the regular $2 annual dividend rate appears reasonably well secured. The increasing demand for stainless steel is of great importance to International Nickel as nickel-bearing stainless steels contain about 8% nickel. We look upon the stock as an investment issue and recommend its retention.

Curtiss-Wright Corp.

I have 200 shares of Curtiss-Wright common bought at 11. Do you think I am wise in holding this stock for substantial market appreciation? Will the company profit materially by the demand for airplanes and parts caused by the armement race here and abroad? Is working capital sufficient to take care of expansion requirements?—G. T., Chicago, Ill.

Considering the well entrenched position of Curtiss-Wright Corp. in the aircraft industry, there would seem to be little question as to its ability to participate further in the growth indicated for the industry over early future years. The company's share capitalization is rather heavy, however, with 1,158,464 shares of $2 non-cumulative class "A" stock ahead of 7,429,118 shares of common stock and because of this fact the market action of the junior equity likely will continue to be relatively laggard as compared with certain other aircraft issues. On the other hand, the report for the March quarter of the current year revealed earnings equal to 15 cents a share on the common stock, after allowing for full dividend requirements on the class "A" stock, a substantial improvement over the 2 cents a share on the common stock shown for the like interval of 1938. The company's backlog of orders is the highest in its history, having been estimated in excess of $40,000,000 recently, including large foreign orders on which profit margins are usually in excess of those obtaining on U. S. Government business. Earnings last year equal to 17 cents a share on the common stock and $3.11 on the class "A" stock were the highest in the company's history and since all divisions are experiencing an expanding volume of business which likely will allow a reduction in unit costs, this year's earnings should run well ahead of last. Financial condition of the company is strong and little difficulty should be experienced in handling the increased volume of business being enjoyed currently and in prospect. However, we do not anticipate any near-term dividend action on the common stock, since the full $2 a share must be paid on the class "A" before distributions may be made on the junior equity and the management doubtless will wish to conserve working capital at least as long as indications point to expanding volume business. Nevertheless, the common stock does hold interesting longer term market possibilities and speculative retention of holdings appears fully justified at present low quotations.

Reynolds Spring Co.

I am a stockholder of 100 shares of Reynolds Spring, bought last year at 12. Will you tell me what the financial position of this company is and if sales are being maintained proportionately with automobile production? Are operations in the black now? Would you advise selling or holding this stock?—B. S., Winston-Salem, N. C.

Reynolds Spring Co. has long occupied a leading position in the manufacture of cushion springs sold mainly to the automobile industry and improvement in the latter during the March quarter of the current year enabled the company to show earnings equal to 25 cents a share on the capital stock, against a loss of 38 cents a share for the March quarter of last year. In addition to its important automobile spring business, the company also does a considerable volume with the furniture trade, while its molded plastics division includes a number of specialty automobile and other industrial fittings as well as household utensils, enjoying wide distribution and holding promise of increasing in importance from an earnings standpoint. However, the activity in the automobile business is still the major profits determinant of the company and while labor troubles during recent years have had an adverse effect on both operations and earnings, the current prospect is reasonably encouraging. The balance sheet of the organization dated March 31, 1939, showed current assets of $1,103,706 and current liabilities of $1,201,506. Cash account at the date of the latest report stood at $124,658, while current notes payable stood at $856,752. However, in view of the relatively favorable prospect for the automotive industry over the balance of the year, the stock would seem to be in a position to respond to any improvement which occurs in market conditions generally and

(*Please turn to page 308*)

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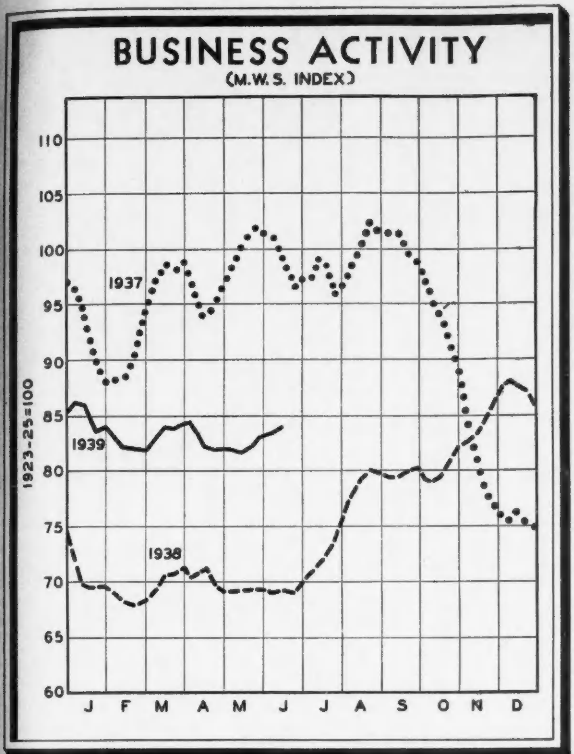


CONCLUSIONS

INDUSTRY—Slow improvement continues.

TRADE—Wider sales gains over last year.

COMMODITIES—Raw material advance flattens out.

MONEY AND CREDIT—Rising investments offset decline in commercial loans.

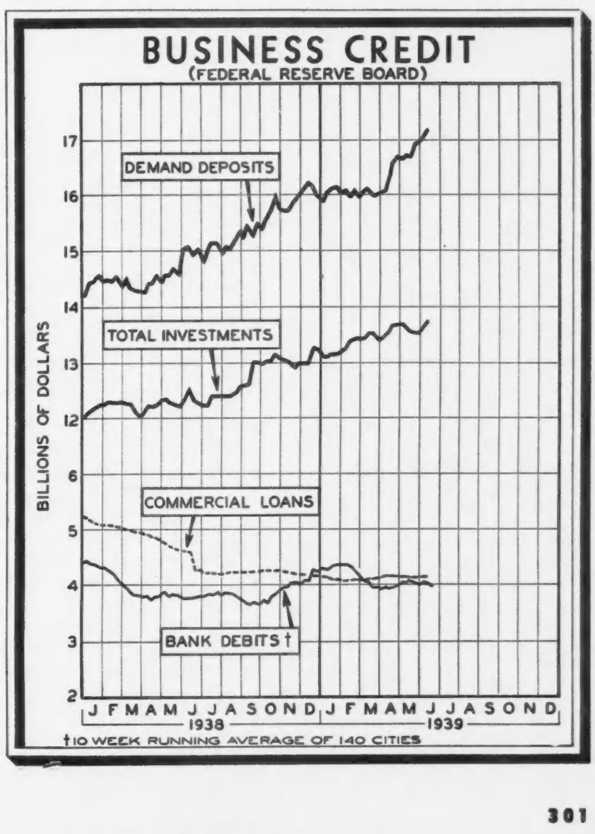
The Business Analyst

Insofar as economic developments in the United States may be divorced from inscrutable political happenings abroad it may be said that the present outlook favors further gradual recovery in **Business Activity** during the summer months with interruptions by labor strife and probable curtailment of cotton cloth production to work off excess inventories. Measures adopted by Congress in its closing weeks will not be inimical to business, the Government's pump-priming expenditures are reaching high tide, and building activity is at the best level in nine years. The C I O campaign to extend the unionization of industry will, to be sure, cause sporadic and temporary interruptions of production, but little resulting net increase in costs; since ultimate consumption will be little affected. There is no danger that the sharp rise in labor costs which helped to check business expansion in 1936-7 will be duplicated now, since wages are not at issue.

* * *

For the month of May, cash dividends declared were 1% above the corresponding month of 1938, the first annual increase since the 1937-8 collapse; but new capital raised through **Flotation of Corporate Securities** amounted to only $21,000,000, against $63,000,000 a year ago. The total for five months,

(Please turn to next page)



Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	May	92	92	76
INDEX OF PRODUCTION AND TRADE (b)	May	81	81	72
Production	May	77	77	67
Durable Goods	May	60	63	43
Non-durable Goods	May	87	87	81
Primary Distribution	May	75	74	70
Distribution to Consumers	May	94	94	83
Miscellaneous Services	May	80	80	78
WHOLESALE PRICES (h)	May	76.5	76.6	79.1
INVENTORIES (n. i. c. b.)				
Raw Materials	Apr.	97.6(pl)	98.3	116.7
Semi-Finished Goods	Apr.	113.4(pl)	113.3	121.9
Finished Goods	Apr.	111.0(pl)	110.0	114.9
COST OF LIVING				
All items	May	84.8	85.0	86.5
Food	May	78.1	78.2	80.8
Housing	May	86.2	86.2	87.0
Clothing	May	72.1	72.2	74.5
Fuel and Light	May	84.0	85.2	83.7
Sundries	May	96.6	96.7	97.5
Purchasing value of dollar	May	117.9	117.6	115.6
NATIONAL INCOME (cm)†	Apr.	$5,435	$5,516	$5,342
CASH FARM INCOME†				
Farm Marketing	May	$508	$463	$510
Including Gov't Payments	May	589	553	554
Total, First 5 Months	1939	2,829	......	2,782
Prices Received by Farmers (ee)	May	90	89	92
Prices Paid by Farmers (ee)	May	120	120	125
Ratio: Prices Received to Prices Paid (ee)	May	75	74	74
FACTORY EMPLOYMENT (f)				
Durable Goods	Apr.	83.2	83.0	76.2
Non-durable goods	Apr.	98.2	98.6	94.1
FACTORY PAYROLLS (f) (not adjusted)	Apr.	85.0	86.9	74.6
RETAIL TRADE				
Department Store Sales (f)	May	85	88	78
Chain Store Sales (g)	May	110.0	110.0	103.3
Variety Store Sales (g)	May	115.0	114.3	106.1
Rural Retail Sales (j)	May	128.2	125.2	110.1
Retail Prices (s) as of	June 1	89.1	89.1	89.5
FOREIGN TRADE				
Merchandise Exports†	Apr.	$230.9	$268.4	$274.5
Cumulative year's total to†	Apr. 30	930.9	......	826.3
Merchandise Imports†	Apr.	186.2	190.4	159.8
Cumulative year's total to†	Apr. 30	713.0	......	666.8
RAILROAD EARNINGS				
Total Operating Revenues★	1st 4 mos.	$1,179,892	......	1,081,377
Total Operating Expenditures★	1st 4 mos.	921,547	......	896,408
Taxes★	1st 4 mos.	114,069	......	112,304
Net Rwy. Operating Income★	1st 4 mos.	101,066	......	29,360
Operating Ratio %	1st 4 mos.	78.10	......	82.90
Rate of Return %	1st 4 mos.	1.55	......	0.45
BUILDING Contract Awards (k)	May	$308.5	$330.0	$283.2
F. H. A. Mortgages				
Selected for Appraisal†	May	109.4	105.7	96.1
Accepted for Insurance†	May	73.7	64.9	61.8
Premium Paying†	May	49.4	46.3	30.0
Building Permits (c)				
214 Cities†	May	95.6	76.6	63.6
New York City†	May	15.9	18.7	14.0
Total, U. S.†	May	111.5	95.3	77.6
Engineering Contracts (En)†	May	$253.0	$240.7	$183.8

PRESENT POSITION AND OUTLOOK

(Continued from page 301)

however, has been $181,000,000 compared with $160,000,000 for the corresponding period last year, a gain of 13%. **Inventories** of finished and semi-finished goods increased a little during April; but were still well below a year earlier. Raw Material Inventories at the end of April were 17% under the like date of 1938 and at the lowest level in over six years, thereby indicating that, generally speaking, there is no overproduction at the present time. **Wholesale prices** receded about 1% during the past month, and are now 2.8% below last year against a recession of only 0.4% in **retail prices.**

* * *

Employment on various types of Federal work relief in April amounted to 4,223,000, an increase of 223,000 within the year; while work relief payrolls for the month showed a $27,000,000 rise over April, 1938. Average factory hourly **wages** in April were 71.7c, the same as a year earlier; though weekly wages increased 12%, owing to expansion in the number of hours worked to 36.8, from 32.9.

* * *

Department store sales in the week ended June 10 were 10% above last year, compared with a four weeks' gain of only 8%. Sales during May, against the like month of 1938, showed a 15% increase for **chain stores,** a jump of 22% for **mail order** houses, a rise of 12% for **variety stores** and a gain of 10% in sales of general merchandise by **rural stores.** First half profits of department stores are believed to have been somewhat better than for the corresponding period last year.

* * *

With the settlement of strikes in several important industries, the margin of increase in **carloadings** over last year has widened to around 15%. Gain over last year in gross revenues of Class I **railroads** for May amounted to about 10%, with freight revenues rising 11% and passenger revenues 3.4%. Judging from inquiries now in the market, freight car manufacturers, rather than locomotive builders, would be the first beneficiaries of such plans as may materialize to facilitate purchases of equipment. Bill to authorize reduction of fixed charges without receivership appears to be jeopardized at present writing by serious disagreement between Senate and House Committees.

* * *

Building contracts awarded during May in 37 States East of the Rockies were 9% above the like month of 1938, with private awards 2% ahead of April and 25% over last year. Total of $308,500,000 was the largest for any May since 1930. **Engineering construction** awards in the week ended June 15 were 90% above last year, with private awards up 43%, compared with a cumulative gain of only 28% for the year to date.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	May	2,918	2,987	1,801
Pig Iron Production in tons★	May	1,718	2,056	1,255
Shipments, U. S. Steel in tons★	May	723	701	465
AUTOMOBILES				
Production				
Factory Sales	May	297,508	337,372	192,059
Total 1st 5 Months	1939	1,643,813	......	1,028,673
Retail Sales				
Passenger Cars, U. S. (p)	Apr.	269,000(pl)	247,000	192,225
Trucks, U. S. (p)	Apr.	46,000(pl)	43,609	35,722
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	May	335.9	298.2	275.7
Shipments, U. S. & Canada★ (tons)	May	359.1	291.7	259.5
Mill Stock, U. S. & Canada★ (tons)	May 31	209.4	232.6	218.8
LIQUOR (Whisky)				
Production, Gals.★	May	7,971.0	8,442.6	7,652.7
Withdrawn, Gals.★	May	4,728.2	5,736.7	5,111.1
Stocks, Gals. as of★	May 31	479,271.2	......	372,162.3
GENERAL				
Machine Tool Orders (n)	May	314.1	222.4	95.3
Railway Equipment Orders (Ry)				
Locomotive	May	51	19	5
Freight Cars	May	2,051	2,695	6,114
Passenger Cars	May	None	14	55
Cigarette Production†	May	15.445	12,269	14,424
BituminousCoal Production★ (tons)	May	17,880(pl)	10,747	21,321
Boot and Shoe Production Prs.★	May	32,000(pl)	32,475	30,473
Portland Cement Shipments★	Apr.	9,654	8,467	8,691
Commercial Failures (c)	May	1,122	1,140	1,123

PRESENT POSITION AND OUTLOOK

Domestic factory sales of **automobiles** during May were 49% ahead of last year, leaving a five-months' increase of 54%. Sales at retail for the first 10 days of June were 57% ahead of last year, the largest annual increase for any 10-day period this year. Owing to Summer shut-downs for remodeling, third quarter factory sales were estimated at only 500,000 units, though 45% ahead of last year, compared with about 1,000,000 for the second quarter.

* * *

With substantial gains in both foreign and domestic bookings, **machine tool orders** in May rose 41% above April to the best level in two years and topped May of 1938 by 230%. Domestic orders booked during the first five months of current year exceeded the last five months of 1938 by 43%. **Shoe** production in May topped last year by 5%, compared with a five-months' increase of 11.6%.

* * *

For the year to date, **bituminous coal** output has been 3% above the like period of 1938, compared with an increase of 19.7% in Anthracite production. Owing to excessive stocks above ground, anthracite operations have been generally reduced to two days weekly. National Bituminous Coal Commission has set minimum prices at about current quotations—somewhat higher for industrial use, but lower on domestic sizes.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. S. W. INDEX OF BUSINESS ACTIVITY 1923-25—100	June 17	84.4	83.8	58.9
ELECTRIC POWER OUTPUT				
K.W.H.†	June 17	2,265	2,257	1,991
TRANSPORTATION				
Carloadings, total	June 17	637,873	634,597	555,519
Grain	June 17	38,821	34,283	36,568
Coal	June 17	100,972	100,015	82,780
Forest Products	June 17	30,550	29,930	26,592
Manufacturing & Miscellaneous	June 17	259,066	258,639	224,316
L. C. L. Mdse	June 17	152,502	153,082	146,308
STEEL PRICES				
Pig Iron $ per ton (m)	June 20	20.61	20.61	23.25
Scrap $ per ton (m)	June 20	14.75	14.79	11.23
Finished c per lb. (m)	June 20	2.236	2.236	2.487
STEEL OPERATIONS				
% of capacity week ended (m)	June 24	55.0	52.5	28.0
CAPITAL GOODS ACTIVITY				
(m) week ended	June 17	68.3	65.5	43.8
PETROLEUM				
Average Daily Production bbls.★	June 17	3,447	3,377	3,137
Crude Runs to Stills Avge. bbls.★	June 17	3,480	3,129	3,129
Total Gasoline Stocks bbls.★	June 17	82,651	82,716	83,831
Fuel Oil Stocks, bbls.★	June 17	117,700	107,028	112,245
Crude—Mid-Cont. $ per bbl.	June 24	1.02	1.02	1.27
Crude—Pennsylvania $ per bbl.	June 24	1.48	1.48	1.50
Gasoline—Refinery $ per gal.	June 24	.0630	.0630	.0675

PRESENT POSITION AND OUTLOOK

Reflecting gradual improvement in general business activity, the margin of increase over last year in **electric power output** has widened to about 14%. The industry derives some comfort from the House action in limiting future power activities of the TVA and directing that construction cost must be amortized over a period of 50 years; but fears that these constructive provisions will meet opposition in the Senate. The SEC points out that utility holding companies with large preferred stock dividend arrears will have to undergo drastic financial reorganization.

* * *

The **steel operating rate** continues to expand contraseasonally, and has now reached the break-even point, currently estimated at around 55% for the industry as a whole. Some trade observers believe that the rate may reach 60% before the summer is over. President Weir, of National Steel, thinks the industry has only itself to blame for selling steel below cost.

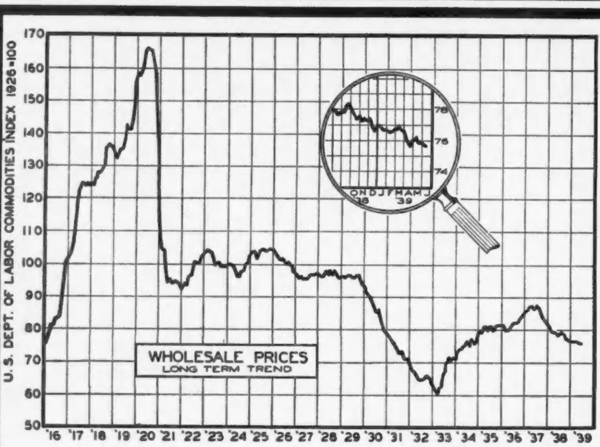
* * *

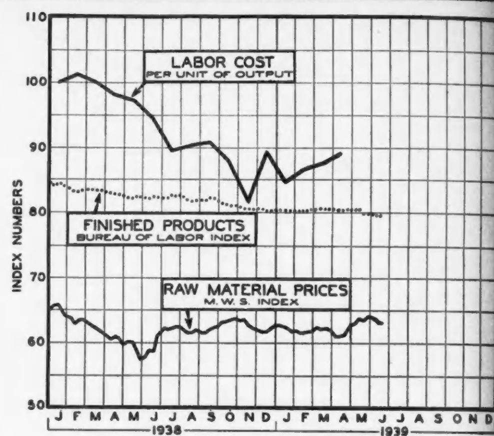
Owing to the excessive accumulation of **gasoline** inventories, recent half-cent advance in wholesale price in the East has had to be rescinded. Unless refinery operations are curtailed promptly, **crude oil prices** will have to be reduced.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec. 1930—100. (En)—Engineering News Record. (Ry)—Railway Age. (n. i. c. b.)—Nat. Ind. Conf. Bd. 1936—100.

Trend of Commodities

Price changes in commodities continue restricted with the price level as a whole giving the appearance of firm to higher quotations. Particularly heartening is the accumulating evidence of a heavier movement of industrial raw materials into consumption. Latest statistics reveal increased consumption of copper, lead, cotton, leather and crude rubber. Buyers apparently are beginning to loosen up, although it is problematical to what extent recent commitments represent forward buying, and to what extent they are necessitous replacements for immediate use. In some commodities there has been a tendency toward the accumulation of larger stocks in the hands of producers, although there has been no serious weakening in the statistical position of these commodities as yet. Producers are apparently banking on accelerated consumption this fall, pinning their hopes on a contra-seasonal rise in manufacturing activity and sustained farm income.





Changes in Major Commodity Price Groups for the fortnight Ended June 17, 1939

Farm Products	62.0	down 0.9	Metals	93.4	down 0.1
Foods	67.1	down 0.4	Building Material	89.5	up 0.3
Hides and Leather	93.0	up 0.4	Chemical	75.5	down 0.3
Textiles	66.8	down 0.1	Housefurnishings	86.9	no change
Fuel and Lighting	74.1	no change	Miscellaneous	73.6	down 0.2

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
July	June 24	9.46	9.27	8.75
October	June 24	8.77	8.45	8.76
Spot	June 24	9.91	9.87	8.85
(In bales 000's)				
Visible Supply, World	June 23	7,108	7,196	8,246
Takings, World, wk. end	June 23	321	367	296
Total Takings, season Aug. 1 to	June 23	16,342	16,020	16,207
Consumption, U. S.	May	605	547	426
Exports, wk. end	June 23	28	27	31
Total Exports, season Aug. 1 to	June 23	3,204	3,177	5,473
Government Crop Est. (final 000's)	1938	11,943(ac)	......	18,946(ac)
Active Spindles (000's)	May	21,975	22,109	21,342
WHEAT				
Price cents per bu. Chi. closing				
July	June 24	69¾	71¼	77¼
September	June 24	70⅜	72	78¼
Exports bu. (000's) since July 1 to	June 17	135,747	132,395	128,297
Exports bu. (000's) wk. end	June 17	3,352	3,027	2,923
Visible Supply bu. (000's) as of	June 17	61,238	59,767	24,125
Gov't Crop Est. bu. (winter 000's)	June 1	668,431	......	930,801(ac)
CORN				
Price cents per bu. Chi. closing				
July	June 24	47⅜	49⅞	57½
September	June 24	49	51½	59
Exports bu. (000's) since July 1 to	June 17	68,449	68,424	86,029
Visible Supply bu. (000's) as of	June 17	32,534	33,209	23,075
Gov't Crop Est. bu. (000's) final)	1938	2,408,958(ac)	......	2,644,995(ac)

PRESENT POSITION AND OUTLOOK

Cotton. Despite strong opposition, a cotton export subsidy now appears inevitable. This factor coupled with the announcement that 600,000 bales of cotton would be bartered with England for 90,000 tons of rubber, both commodities to be held as a war emergency, was apparently responsible for all cotton positions reaching new season highs. Announcement of the manner in which the export subsidy will be handled may be delayed until after the international cotton conference scheduled for next month. Prices likely to continue firm.

* * *

Wheat. Abundant rainfall over the past fortnight has resulted in considerable improvement in growing conditions and private estimates of the current crop have been revised upward. Near the close of the past week, wheat prices rallied, following an extended series of weak sessions. The upturn was apparently brought about largely by short covering and the announcement of higher flour prices. Exports have been light.

* * *

Corn. Prices have receded further, on favorable weather news. Reports indicate the crop to be in good condition. The spread between Argentine and domestic corn has narrowed but the likelihood of an early reversal in the recent diminishing volume of exports appears remote.

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	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	June 24	10.00	10.00	9.00
Export c. i. f.	June 24	9.95-10.00	9.90-9.95	9.25
Refined Prod., Domestic (tons)	May	68,536	58,368	47,300
Refined Del., Domestic (tons)	May	45,961	42,484	28,044
Refined Stocks, Domestic (tons)	May 31	342,419	332,513	369,809
Refined Prod., World (tons)	May	170,472	166,308	149,344
Refined Del., World (tons)	May	172,296	153,678	136,567
Refined Stocks, World (tons)	May 31	520,898	522,722	554,356
TIN				
Price cents per lb., N. Y.	June 24	49.10	48.75	42.90
Tin Plate, price $ per box	June 24	5.00	5.00	5.35
World Visible Supply† as of	May 31	30,866	33,873	27,909
U. S. Deliveries†	May	5,905	5,980	4,275
U. S. Visible Supply† as of	May 31	3,387	3,385	3,679
LEAD				
Price cents per lb., N. Y.	June 24	4.85	4.85	4.50
U. S. Production (tons)	May	46,006	39,250	32,977
U. S. Shipments (tons)	May	40,124	37,903	25,098
Stocks (tons) U. S., as of	May 3	129,270	123,394	164,636
ZINC				
Price cents per lb., St. Louis	June 24	4.50	4.50	4.50
U. S. Production (tons)	May	42,302	43,036	37.510
U. S. Shipments (tons)	May	39,607	40,641	24,628
Stocks (tons) U. S., as of	May 31	133,075	130,380	148,120
SILK				
Price $ per lb. Japan xx crack	June 24	2.44	2.52	1.68
Mill Dels. U. S. (bales), season to	June 1	388,225	362,075	348,988
Visible Stocks N. Y. (bales) as of	June 1	24,201	20,738	34,800
RAYON (Yarn)				
Price cents per lb.	June 24	51	51	49
Consumption	May	25.9	23.1	16.2
Stocks as of (a)	May 31	41.5	43.4	67.8
WOOL				
Price cents per lb. tops, N. Y.	June 24	84.0	84.0	79.0
HIDES				
Price cents per lb. No. 1 Packer	June 24	11.00	11.00	9.00
Visible Stocks (000's) (b) as of	Apr. 30	12,813	13,009	13,971
No. of Mos. Supply as of	Apr. 30	6.2	6.2	8.1
RUBBER				
Price cents per lb.	June 24	16.35	16.22	13.95
Imports, U. S.†	May	47,535	29,601	27,410
Consumption, U. S.†	May	44,377	44,166	30,753
Stocks U. S. as of	May 31	193,602	190,896	300,907
Tire Production (000's)	Apr.	4,211	5,137	2,660
Tire Shipments (000's)	Apr.	4,356	4,583	3,143
Tire Inventory (000's) as of	Apr. 30	9,998	10,109	10,141
COCOA				
Price cents per lb. July	June 23	4.09	4.16	4.91
Arrivals (thousand bags)	May	416	518	84
Warehouse Stocks (thousand lbs.)	June 23	1,420	1,424	666
COFFEE				
Price cents per lb. (c)	June 24	7.50	7.50	7.75
Imports, season to	May 31	12,624	11,487	11,271
U. S. Visible Supply (bags 000's)	June 1	1,451	1,352	1,299
SUGAR				
Price cents per lb.				
Duty free delivered	June 24	2.85	2.80	2.66
Refined (Immediate Shipment)	June 24	4.50	4.50	4.50
U. S. Deliveries (000's)*	1st 5 Mos.	2,341(pl)	......	2,250
U. S. Stocks (000's)* as of	May 31	890(pl)	849	943

PRESENT POSITION AND OUTLOOK

Copper. The decline in foreign stocks of refined copper in May were more than sufficient to offset the increase of 9,906 tons in domestic stocks, with the result that world stocks of refined copper were 1,824 tons lower at the end of the month. Domestic deliveries increased 3,477 tons—somewhat less than expectations. Domestic production was 3,972 tons lower than in April. Consumption by fabricators in May totaled 50,483 tons, or 4,882 tons more than received from producers. As a result fabricators' stocks are estimated to be equal to about one month's requirements.

* * *

Tin. Third quarter quotas have been raised five points to 45 per cent. However, with both domestic and foreign consumption holding up well, there is slight doubt that increased supplies will be readily absorbed. In fact, it is hoped that the Buffer Pool may be able to dispose of some of the 15,000 tons of tin which it has accumulated.

* * *

Lead. Following two successive price advances, the recent buying rush has quieted down somewhat but prospects remain favorable. Stocks increased 5,876 tons in May. Shipments of 40,124 tons gained 2,221 tons but output was up 6,956 tons, larger than had been expected.

* * *

Zinc. With galvanizing activity holding at 50 per cent, deliveries have been in good volume, although sales in the latest week may fall below the surprisingly good showing of 5,060 tons in the previous week.

* * *

Silk. Prices have declined further over the past fortnight. Domestic mill takings for June are being estimated at only 23,000 bales, a decline of 758 bales from the May figure and the lowest monthly figure since May, 1937. Prices from now on will be under the influence of news bearing on the new cocoon crop.

* * *

Wool. Although sales in recent sessions have been light, prices have been reasonably firm and sentiment in the trade is cheerful. Orders for all types of fall apparel are running considerably ahead of last year.

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Hides. Prices continue to hold within their recent range and market interest has lagged. Shoe manufacturers are anticipating an active fall season.

* * *

Rubber. The 90,000 tons of crude rubber to be bartered for 600,000 bales of cotton will not be counted against U. S. consumption quotas and will be held by the Government to be used only in a war emergency. Temporary price reductions are stimulating replacement sales of tires.

* * *

Cocoa. Breaking below 4 cents, cocoa sold at the lowest price in six years. Interest on the part of consumers is conspicuously lacking and warehouse stocks continue to mount.

* * *

Sugar. Confused by conflicting reports regarding the deliberations of the International Sugar Council in London, the market has displayed considerable nervousness and world prices have receded. Domestic prices have remained firm, bolstered by improved refiner demand.

(a)—Million Pounds. (ac)—Actual. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	June 24	1¼%	1¼%	1¼%
Prime Commercial Paper	June 24	⅝-1%	⅝-1%	1%
Call Money	June 24	1%	1%	1%
Re-discount Rate, N. Y.	June 24	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	June 10	2,377	2,228	2,248
Cumulative year's total to	June 10	54,340	......	51,638
Bank Clearings, N. Y.	June 10	3,323	2,957	4,380
Cumulative year's total to	June 10	72,346	......	84,822
F. R. Member Banks				
Loans and Investments	June 14	21,878	21,795	20,866
Commercial, Agr., Ind. Loans	June 14	3,831	3,833	3,958
Brokers Loans	June 14	674	699	663
Invest. in U. S. Govt's	June 14	8,390	8,318	8,062
Invest. in Govt. Gtd. Securities	June 14	2,108	2,092	1,451
Other Securities	June 14	3,283	3,269	3,022
Demand Deposits	June 14	17,212	17,057	15,065
Time Deposits	June 14	5,225	5,229	5,227
New York City Member Banks				
Total Loans and Invest	June 21	8,135	8,090	7,584
Comm'l Ind. and Agr. Loans	June 21	1,372	1,374	1,501
Brokers Loans	June 21	517	524	515
Invest. U. S. Govt's	June 21	3,149	3,133	2,911
Invest. in Gov't Gtd. Securities	June 21	1,065	1,054	663
Other Securities	June 21	1,173	1,143	1,036
Demand Deposits	June 21	7,640	7,624	6,187
Time Deposits	June 21	623	620	659
Federal Reserve Banks				
Member Bank Reserve Balance	June 21	10,099	10,101	7,922
Money in Circulation	June 21	6,934	6,936	6,402
Gold Stock	June 21	16,060	16,027	12,957
Treasury Currency	June 21	2,873	2,868	2,710
Treasury Cash	June 21	2,566	2,570	2,293
Excess Reserves	June 21	4,230	4,260	2,780

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	May	182.5	258.8	63.3
New Capital	May	21.0	77.1	37.6
Refunding	May	161.5	181.7	25.7

COMMENT

Excess reserves of all **Federal Reserve Member Banks** have declined in two successive weeks and are now $70,000,000 under the May 24 high. This reversal, however, in the trend of excess reserves promises to be of brief duration. In the latest week, the decline of $30,000,000 in excess reserves was the result of a drop of $2,000,000 in actual reserves and an increase of $28,000,000 in deposits.

Loans and investments of **New York City Member Banks** rose $45,000,000 in the latest week and are now at the highest point since October, 1937. A decline of $12,000,000 in loans was offset by an increase of $57,000,000 in investments. Over the past year outstanding credit of New York banks has risen $686,000,000, but the total is still $940,000,000 under the peak for 1936. Comparing the current composition of banks' earning assets with October 13, 1937, it is to be noted that on the latter date commercial loans totaled $1,946,000,000, while at the present time these loans amount to $1,372,000,000. Investments, on the other hand have increased substantially. Holdings of direct Government bonds are up $343,000,000, Government guaranteed issues have increased $674,000,000, and other securities are $188,000,000 higher.

New York banks continue to accumulate longer term Treasury bonds. An increase of $7,000,000 in these holdings in the latest week brought the total up to $2,157,000,000, a new peak. Local bank deposits are also at a new high level, rising $16,000,000 in the recent week notwithstanding tax collections by the Treasury.

Sustained strength in bond prices augurs favorably for new financing prospects. A number of large refunding issues are scheduled for early offering and even companies with lesser credit rating are now able to issue lower coupon bonds for refunding purposes.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

No. of Issues (1925 Close—100)	1939 Indexes High	Low	June 17	June 24
316 COMBINED AVERAGE	73.1	50.7	57.6	58.7
5 Agricultural Implements	119.4	81.4	94.1	96.3
6 Amusements	43.2	26.8	34.2	33.2
15 Automobile Accessories	92.3	55.2	67.5	68.5
12 Automobiles	12.8	8.1	9.2	9.3
11 Aviation (1927 Cl.—100)	182.7	128.2	142.3	143.7
3 Baking (1926 Cl.—100)	15.4	11.5	13.0	12.9
3 Business Machines	183.9	121.9	128.0	126.8
9 Chemicals	168.2	123.7	136.3	138.8
20 Construction	47.5	27.7	31.2	32.4
5 Containers	242.6	165.0	189.2	190.4
9 Copper & Brass	118.6	71.2	80.4	81.6
2 Dairy Products	30.3	23.6	29.0	29.6
8 Department Stores	23.9	16.5	20.2	20.8
7 Drugs & Toilet Articles	53.5	40.4	44.6	46.0
2 Finance Companies	312.0	219.4	253.2	257.9
7 Food Brands	89.9	69.1	86.2	89.9H
3 Food Stores	45.2	33.3	43.7	44.3
4 Furniture & Floor Covering	72.1	47.1	56.2	57.2
3 Gold Mining	1301.2	1123.7	1203.0	1196.7
6 Investment Trusts	28.1	19.2	20.6	21.5
4 Liquor (1932 Cl.—100)	193.1	143.2	157.4	154.5
9 Machinery	129.0	83.3	95.3	96.5

No. of Issues (1925 Close—100)	1939 Indexes High	Low	June 17	June 24
316 COMBINED AVERAGE	73.1	50.7	57.6	58.7
2 Mail Order	87.5	69.2	81.6	81.2
4 Meat Packing	52.3	43.2	45.8	47.0
14 Metals, (non-Ferrous)	173.6	122.0	130.5	136.9
2 Paper	13.5	7.5	8.5	8.4
24 Petroleum	100.9	76.6	81.9	81.6
18 Public Utilities	62.6	44.9	51.4	52.5
4 Radio (1927 Cl.—100)	17.0	11.6	12.9	12.7
9 Railroad Equipment	61.6	33.7	39.0	40.6
22 Railroads	18.1	10.9	12.1	12.5
2 Realty	7.9	3.2	3.2L	3.2
2 Shipbuilding	82.7	45.1	54.7	54.5
13 Steel & Iron	99.0	60.4	66.0	66.9
2 Sugar	20.1	13.3	16.4	15.6
2 Sulphur	153.2	114.0	120.7	119.5
3 Telephone & Telegraph	52.7	40.6	44.4	43.5
4 Textiles	45.0	27.4	34.1	39.1
4 Tires & Rubber	20.0	13.0	15.3	15.6
4 Tobacco	85.9	76.2	84.2	85.1
4 Traction	36.9	21.9	33.0	36.7
4 Variety Stores	244.0	189.3	236.2	237.1
20 Unclassified (1938 Cl.—100)	100.8	73.1	85.7	86.2

H—New HIGH record since 1932. L—New LOW record since 1929.

The Investment Clinic

(*Continued from page 287*)

investment standpoint in the pre-depression years. Almost anyone could doubtless think of numerous examples in support of this contention. Among the common stocks which justly command investment respect a large majority are issues which constitute either the entire capitalization of the issuing company, or are preceded by such a small amount of funded debt or preferred stock as to have virtually a full equity. The reasons for this are rather obvious. A company not obliged to meet heavy interest charges and preferred dividends will, of course, make a relatively better showing for its common stock year in and year out, and is permitted greater latitude in the matter of dividends. Moreover, as a general rule, investors should fight shy of common stocks of companies identified with the more volatile or cyclical industries such as non-ferrous metals, heavy equipment manufacture and building materials, and burdened with a top-heavy capital structure which includes bonds as well as preferred stocks. Widely fluctuating earnings in these industries are the rule rather than the exception and the presence of heavy prior charges ahead of the common would have the effect of further aggravating the range of common stock earnings.

On the other hand, if one is a trader or speculator, widely fluctuating earnings resulting both from industrial conditions and capital leverage may be a desirable feature. A capitalization comprised of say 75% or 80% bonds and preferred shares with the balance represented by common stock is one which provides the common with a high leverage factor. With such a capital setup, it is possible once earnings have risen sufficiently to cover fixed charges and preferred dividends for per-share earnings available for the common to increase at much faster pace than the increase in gross. An increase of 10% in gross, for example, might conceivably boost common stock earnings several hundred per cent. This is the sort of thing on which speculation thrives. Conversely, however, a period of poor business would see common stock earnings melt away just as rapidly as they rose under favorable conditions. Leverage works both ways. A decline of 10% in gross might easily halve common stock earnings.

Not all 100%-equity common stocks are investment issues, nor are all leverage issues volatile speculations. Nevertheless, the distinction one is an important consideration in making any choice of common stocks either for investment or speculation.

Present and Future Leaders in Building Materials

(*Continued from page 289*)

In addition to the $144,000,000 carryover, the Senate recently passed the Wagner housing act which would authorize another $800,000,000 in U S H A bonds, on which the principal and interest would be guaranteed by the Government and funds used for rural slum clearance and low cost housing. Until, however, this measure has become law and the manner in which it will be administered is known, its potential effects upon the demand for building material and equipment cannot be gauged, beyond the assumption that the program can hardly become immediately effective and is therefore of longer term significance.

With construction of new plants, factories, and commercial buildings continuing sub-normal public works and non-residential construction is mainly dependent upon P W A funds. Under the 1938 P W A program, more than $700,000,000 was alloted for various public buildings, most of which has been already reflected in reported contract awards. It is understood, however, that a large number of acceptable P W A projects have been postponed, owing to exhaustion of authorized funds. The probabilities are that any spending-lending program authorized for next year will include large allotments to P W A, which because the plans are already drawn could be counted upon to become immediately effective in expanding building operations and sales of materials.

For all of 1938, aggregate building activity in all classifications promises to be more or less ahead of last year. How much of how little will be determined by factors and conditions not now predictable. In the last six months, however, the margin of gain over last year will be considerably less than in the first six months. Comparisons this year will be made with months a year ago in which building activity spurted sharply.

Throughout this discussion building activity has been measured principally in terms of mortgage applications and contracts awarded. There is, however, a definite time lag between mortgage applications, contract awards and the actual placing of orders for the extensive list of materials and supplies which go into the average modern home. Allowance for this lag leads to the conclusion that the impressive figures covering contract awards and mortgages in the first six months of this year will be more fully reflected in the sales and earnings of leading manufacturers of building supplies in later months.

Sales of building materials and equipment have responded to the seasonal upturn in actual building, beginning last spring. Most of the leading companies identified with building have reported sales ahead of last year but gains have varied widely with individual companies and some territories have produced a greater volume of sales gains than the average for the country and the industry as a whole.

Thus far, however, the improvement in profits has not held to the pace set by sales, and gains for the most part have been fairly modest. The failure of earnings to show up more favorably has been due to the narrow margin of profit on a number of important building materials and the inability of leading companies, in the face of exceptionally keen competition and large productive capacities, to advance prices sufficiently to restore profit margins to a more normal level. To an extent, the further rise in volumes foreshadowed for the last six months this year will tend to offset restricted profit margins but it appears likely that while most of the leading companies will report an appreciable gain in current sales over last year, profits will vary widely with individual companies.

Under favorable business and market conditions shares of leading building material suppliers attract a large speculative following and at almost any given stage of the business or economic cycle, the average building stock will be found to be selling

on a basis which gives a very generous market appraisal of its earnings and prospects. With most of the leading companies able to show a comfortable financial position, thus permitting considerable latitude in the matter of dividends, and capitalized on a basis which normally results in marked gains in per-share earnings under favorable conditions, selected building stocks offer obvious inducements to the speculator, or the investor primarily seeking price appreciation.

Both in the market decline in 1937-38 and again this year building stocks as a group declined further than the market as a whole. Thus far their degree of recovery from the April 8 lows of this year has been less than that of the general market. This same pattern, however, was shown last year but by the time the market had reached its high last November, building shares, aided by a sharp upturn in building activity, had fully corrected the earlier discrepancy. The industrial background this year is not unlike that of a year ago and history could repeat itself.

Answers to Inquiries

(Continued from page 299)

while the issue is obviously highly speculative, further retention at least for the present appears warranted.

Texas Gulf Sulphur Co., Inc.

Holding 150 shares of Texas Gulf Sulphur bought at 40, I am anxious to know your appraisal of this stock. Are the reduced demands for sulphur and lower prices for this commodity retarding present earnings? What are the prospects for market enhancement? Is the 50 cent quarterly dividend secure? —E. B. I., Newark, N. J.

The Texas Gulf Sulphur Co. together with Freeport Sulphur, produce about three-quarters of the world's supply of sulphur which is used so widely in industry that any sustained improvement in general industrial activity would be quickly reflected in an increased sales volume by these producers of sulphur. In the full year 1938 Texas Gulf earned $1.81 per share as against $3.02 earned in 1937, while 37 cents per share was earned in the first quarter of the current year compared with 48 cents earned a year earlier. Inasmuch as sales in the initial quarter of 1939 were about the same as a year earlier, the decline was due almost entirely to lower prices, as improved domestic consumption offset the drop in exports. The reduction in the export market is not expected to be permanent, as deposits now being worked by two smaller companies chiefly for export are reported to be small. Texas Gulf is in a strong financial position, but since earnings are running below the $2 annual dividend rate, there can be no assurance that payments will be maintained at the full rate. However, the company has been liberal in the matter of dividend returns and a fair return, based on earning power, can be looked for. The longer range outlook appears good and we would counsel patience with your holdings.

General Motors Co.

What are the prospects of General Motors advancing to 65 at which I have 200 shares? Is this traditional leader of the automobile industry gradually relinquishing its foremost position to Chrysler or is the latter's gain only temporary? Can I continue to expect 75-cent quarterly dividends on my stock? —J. B., Milwaukee, Wis.

The General Motors Corp., the world's largest automobile manufacturer, normally produces about 40% of the total output of the United States and Canada and there is nothing to indicate that the company is relinquishing its dominant position to its nearest competitor. The competitive position of the Chrysler Corp. has been greatly improved in the past several years but this has not been at the expense of General Motors as two out of five of all the cars and trucks sold in the United States are the product of General Motors. The competitive position of General Motors was fully maintained in the first quarter of the current year when the company reported the highest earnings for the period since 1929. The net profit for the three months ended March 31, 1939, was equivalent to $1.18 per share, compared with 14 cents per share in the similar period of 1938 and $1.37 per share earned in the initial quarter of 1929. It is estimated that between 90 cents and $1 per share will be earned in the second quarter of 1939 and the full year 1939 should bring earnings higher than $3 a share. While the future dividend rate cannot be determined, the company has always been liberal in the matter of disbursements to stockholders. We recommend long term retention of your holdings.

Texas Pacific Coal & Oil Co.

Shares of Texas Pacific Coal & Oil common show little activity on the upside in spite of increased 1938 earnings. I have 200 shares of this stock bought at 12½ and want to know whether to hold for market appreciation or sell because of the unfavorable outlook in the oil industry.—C. R., Portland, Maine.

The Texas Pacific Coal & Oil Co., one of the smaller units in the field, is engaged chiefly in the basic crude oil division, with operations centered primarily in Texas. Less important interests of the company include the manufacture of a moderate amount of casing-head gasoline, the operation of a small refinery and the marketing of petroleum products in Texas. Capitalization is simple, comprising 888,237 shares of common stock of $10 par value. After the difficult depression years the company incurred heavy bank loans, but these were liquidated by the end of 1935 without outside financing. Working capital during the period was bolstered which allowed for extensive development work. Despite heavy expenses for development, the company has remained in a strong financial position with cash alone far in excess of total current liabilities. Earnings last year were equivalent to $1.16 per share, as against $1.11 per share in 1937. Due to the reduction in crude oil prices late in 1938, a lower level of income is expected this year, but the decline is expected to be limited by larger crude production. The longer term outlook for the oil industry is favorable and we counsel retention of your 200 shares.

National Cash Register

Last year I bought 100 shares of National Cash Register at 28⅝ and, as this shows quite a loss at present market prices, what do you suggest? What are the prospects for market enhancement and is the $1 annual dividend on this stock secure? In the event of a European war, will sales be greatly curtailed?—D. F., New York, N. Y.

Because of the fact that its products are marketed throughout the world, National Cash Register Co. is naturally subject to the uncertainties currently obtaining in the inter-

national situation and foreign business is understood to be currently running below a year ago. Domestic business, on the other hand, which normally amounts to better than 50% of the company's total sales, has been holding up well which accounts for the fact that earnings reported for the quartei ended March 31, 1939, were equal to 30 cents a share on the capital stock, but moderately below the 37 cents a share shown in the like 1938 interval. Domestic bookings for the month of March were up 16% from March a year ago and indications are that the improved volume of incoming orders has been further extended. Thus, the domestic business of the company should provide an offset to the indicated falling off in foreign business due to the unsettled foreign situation and earnings for the year as a whole probably will differ but slightly from last when the equivalent of $1.47 a share compared with $2.47 a share in 1937. Financial condition of the company continues characteristically strong and as of March 31, 1939, current assets of $26,509,099, compared with current liabilities of $4,250,144. With indications pointing to further moderate improvement in domestic operations and the probabilities favoring some betterment in the foreign situation, the stock appears to occupy a favorable market position, while the current $1 annual dividend likely will be maintained, thus providing a satisfactory income return at present levels of around 18.

Can Business Upturn Spiral Into Recovery?

(*Continued from page 274*)

psychological factors always operative on a capitalist economy:—namely, confidence or doubt.

The great activity in durable goods over the prosperous period 1923-1929 was founded on a favorable existing earnings trend, a high level of volume in relation to existing capacity and phenomenal optimism regarding the country's long term economic outlook. In contrast, the more limited expansion in output of durable goods in 1935-1937 had little or no relation to long term investment confidence. What happened was that, after years of deferred capital outlays and cumulative obsolescence of facilities, activity in consumption goods and consumers' durable goods — nourished by Government money — finally established a level of volume and profits at which partial renewal of business spending on producers' durable goods became either necessary or worth while.

At best, this is the only general pattern of recovery that we can expect over the next year. On the present relationship of volume to efficient capacity, we cannot look for capital outlays by business in anything like the proportions of 1935-1937, especially with the European war doubts hanging over us and with an election year looming up. Producer goods industries will not of themselves create a self-sustaining upward spiral of recovery in the existing setting. On the contrary they will only reflect in greater or lesser degree the upward spiral in which the most dynamic elements are public works, residential building, armaments and consumer demand for durable goods, with automobiles by far the most important classification of the latter. In every one of these elements there is either entire or partial dependence on Government money, Government credit or Government guarantee of credit.

It is not at all pleasant to record the simple fact that after six years of lavish Federal pump-priming we are much further below the normal line of economic progress than is realized by the vast majority of our people. The American public knows we are better off than we were in 1932 or 1933 and that we are not as well off as we were in the boom year 1929. What they don't know is that the best years we have had under the New Deal—1936 and 1937—were not only far under 1929 in economic activity but under the modest standards of such years as 1921-1922 when there was no semblance of a boom in this country.

To get the long term picture all one need do is glance at three key indexes maintained by the Federal Reserve Bank of New York and shown in graphs accompanying this

article. Consumer purchasing power is the great cure-all? Well, distribution to consumers in 1936-1937 averaged 95, as compared with 98 in 1921-1922. Output of non-durable goods in 1936-1937 averaged 88, against 96 in 1921-1922. Output of durable goods in 1936-1937 averaged 79, as compared with 82 in 1921-1922.

Over the six New Deal years 1933-1938 distribution to consumers averaged 88, against 95 in the not so good year 1921; and output of non-durable goods averaged 87, as compared with 93 in 1921. *It is in durable goods—the heart of our recovery problem—that the vitally significant deficiency is shown. This index for 1933-1938 averaged only 59. It was 66 in 1921, a year of heavy-industry depression; and it averaged 114 for the prosperous years 1923-1929. It is in this index—volume of durable goods—that we will find our way to "the more abundant life" or fail to do so.*

U. S. Pipe & Foundry Co.

(Continued from page 296)

For the most part, sales and earnings are dependent upon the growth of communities and Federal and municipal outlays for public projects and replacement work. Under the circumstances, it is not surprising that in the past, earning power, from year to year, has shown wide fluctuations. In recent years, however, aided by the steady flow of Federal funds into public works projects, earnings have been well sustained. In 1936, for example, the company reported net income of $2,427,867, and earnings available for the common stock were equivalent to $3.45 a share. The showing in that year was nearly as good as in the record breaking year, 1929. Business volume was fairly well sustained in 1937 and in that year net income of $2,235,756 was equivalent to $3.21 a share. Last year, in the first six months, net was equal to $1.12 a share for the common stock, while in the final half, $1.26 per share was earned, bringing total common stock earnings up to $2.38 a share for the full 1938 period.

Current operations were off to an auspicious start. January was the most profitable initial month for any year since the 1930-31 period and unfilled orders on the company's books at the beginning of the second quarter are reported to have been about 60% ahead of the same date a year ago. First quarter operations were aided by favorable weather conditions. The probabilities, therefore, are that sales and earnings for the first six months of the current year, conservatively estimated, will compare favorably with results in the corresponding months of 1938.

Officials of the company estimate that about 35 to 40% of its output is largely influenced by or receives the benefit of Federal spending. The proposed Federal spending-lending program for 1940 emphasizes strongly a continuation of large public works projects and unless unforeseen delays are encountered, prospects would appear to favor a sustained volume of business for U. S. Pipe & Foundry in the months ahead.

With the redemption of the company's $958,000 3½% debentures on May 20, last, the outstanding 695,923 shares of common stock now comprise the entire capitalization. At the end of 1938 the company's balance sheet disclosed current assets of $10,111,311, including over $4,000,000 cash and marketable securities, which compare with current liabilities of approximately $1,400,000. Well sustained earnings backed by a comfortable financial condition lend considerable protection to the present $2 annual dividend.

Currently selling around 40-41 to yield approximately 5%, U. S. Pipe & Foundry common shares invite favorable speculative consideration both for income and worth-while price appreciation over the months ahead.

The Stockholder's Guide

(Continued from page 283)

yields with moderate growth prospects. Only in this way can any hedge be set up against firming money rates which might accompany sustained business recovery (and which would make present dividends less attractive), or against lower purchasing power of a static income, or against capital losses resulting from a change in market tastes and fashions. Specific problems of this kind are treated fre-

quently in the Investment Clinic and occasionally in other parts of the Magazine.

Beneficiaries of Farm Spending

(*Continued from page 277*)

The cotton farmer does not lack for political friends, but in the end it will be these same well-meaning friends who will be responsible for the virtual elimination of the domestic cotton farmer from the foreign markets. Restricted crops and high prices have encouraged other nations greatly to increase their production of cotton. World supplies are top-heavy and in a recent week only 36,000 bales of cotton were shipped from the United States, comparing with 54,000 bales a year ago and 88,000 in the same week of 1936. Exports this season have fallen 42% below the level of a year ago and are at a fifty-year low. The Government has called an international conference to solve the problem but the chance that such a conference will accomplish anything worthwhile appears remote.

The near term prospect for cotton is fairly promising. Lacking authority to release loan stocks except to borrowers discharging their obligations, the Government has been unable to relieve a tight spot situation, with the result that early month contracts have recorded sizable price gains in recent weeks. In fact the rise in prices has permitted some growers to withdraw pledged cotton. However, less than 200,000 bales have been taken out of loan and any large scale withdrawal must await a much more substantial rise in prices. Nearly 50 per cent of the pledged cotton is in the loan at 10.25 to 10.45 cents a pound including charges and borrowers are not likely to redeem their pledges unless prices rise at least 30 or 40 points above the loan. Meanwhile sales of gray goods are holding up surprisingly well, mills are planning shut-downs to reduce inventories, and with market supplies limited and a normal crop yield indicated, prospects favor sustained to moderately higher cotton prices over the next several months.

According to the Government estimate, the winter wheat crop this year will be only 523,431,000 bushels a drop of 24 per cent from last year's harvest and the smallest yield since 1936. The spring crop has been estimated as between 145,000,000 and 170,000,000. The former figure would represent a decline of 40 per cent from the spring crop of 1938. On the basis of these figures the total wheat crop this year will be smaller than domestic needs for the first time in seven years. However, with a carry-over of 275,000,000 bushels the United States will still have wheat to export, even if the crop is no larger than 668,000,000 bushels. Moreover, with world crops indicating a larger current yield, domestic growers will probably be at a worse disadvantage in foreign markets next year than they were this—unless of course the Government is willing to provide a subsidy, but it will have to be larger than the average of 25 cents a bushel this year.

Of the 85,000,000 bushels of wheat pledged with the Government against loans, some 20,000,000 bushels have been withdrawn, following the recent improvement in prices. The loan values for 1939-40 have been raised to 60 cents a bushel on the farm and 80 cents at Chicago. Higher loan figures this season can probably be depended upon to support domestic prices, and in the event that the crop proves to be smaller than indicated the market may not even require the sustaining aid of Government loans.

Loans on corn during the 1938-39 season were made in the Chicago territory at the rate of 57 cents a bushel in farmers' cribs. F.o.b. prices at Chicago, however, were 50 cents a bushel and lower, while at the farm corn sold for 35 cents a bushel. However, only about fifty per cent of the corn farmers were eligible for the loan due to the large non-compliance with acreage allotments. Nevertheless, 227,000,000 bushels of corn were sealed in cribs against Government loans. This year another corn loan program is scheduled and with more farmers than ever signed up for the acreage program, substantially larger benefit payments to corn farmers are indicated.

All in all, therefore, farm income this year promises to be at least as high as it was in 1938, and may well be substantially larger than last year. So far as this prospect may be reflected in the sales of farm equipment, automobiles and trucks and retail trade, the greatest impetus

will be derived in the last five months of the year, when the harvesting and selling season contributes the major portion of annual farm income. Usually, however, there is a lag of about six months in the relationship of farm income and equipment purchases so that sales in agricultural territories could be well sustained into the early months of 1940, by which time many new influences will have come into effect, and the outlook for another new crop season will be of paramount importance.

Farm equipment sales in the second and ensuing quarters promise to make a more favorable comparison with last year than did the showing of the industry in the initial three months this year. It will be recalled that sales began to drop in the spring of 1938 and continued to decline well into December. This year this trend is likeliy to be reversed. Replacements, which were bound to suffer some contraction following the heavy buying in 1935-37, will be stimulated by the recent introduction of low priced tractors and other farm equipment offered on liberal credit terms. Lower prices will reflect in dollar volume but the outlook is for increased unit sales.

Rural retail sales in May were the highest for that month in ten years, according to figures compiled by the Department of Commerce. For the first five months of this year they were about 12½% above the same period a year ago. Although the two leading mail order firms, Montgomery Ward and Sears, Roebuck are no longer dependent to the same extent as formerly upon mail order sales, farm income is still the most important single factor in determining total sales volume. Sales of both of these companies are running at record-breaking levels and aside from the fact that they deal chiefly in consumption goods, sales and earnings of the mail order companies will reflect at the trend of farm income in greater measure than the equipment companies because their fiscal year will not end until January 31, 1940, whereas the equipment companies close their fiscal year at the end of October. What is already apparent in the sales reports of mail order companies has doubtless found reflection in the sales of other retail organizations such as variety and merchandise chains serving farm communities.

As the Trader Sees Today's Market

(Continued from page 291)

however, are far more sensitive to market fluctuations than such sound equities as American Can, American Tobacco B and Corn Products. Furthermore, while no better known to the trading and investing public than the slower stocks, the dozen mentioned have in their favor the fact that continuous relative activity attracts transactions for that quality alone. The list might be considerably expanded but as it stands it gives opportunities to trade on either side of the market in a wide price range and in representative industries. Short-term transactions are far better undertaken in such a group as this, and continued familiarity with the timing of the individual issues in various types of moves should lead to the ability to "beat the averages," provided always that judgment of the main trend is good.

Profit Outlook for Tobacco Stocks

(Continued from page 285)

package sales will amount to 9 cents. The initial effect of the new taxes in this important consuming area will probably be some shift to ten-cent brands and some diversion of buying to New Jersey. However, overall consumption is not expected to be materially affected. Philip Morris will probably follow its practice in other heavily taxed areas of offering vending machine owners and retail dealers enough in the way of additional free goods to maintain a competitive price.

Comparative earnings stability characterizes both the cigar and cigarette branches of the tobacco industry, but the most stable earners and dividend payers of all are the snuff companies. Largest unit in this group is United States Tobacco whose net per share, amounting to $1.74 last year, has ranged as high as $2.22 in 1936 and as low as $1.30 in 1929, with intermediate variations bearing little relation to the business cycle; payments to shareholders have also fluctuated within a relatively narrow range, totaling $1.66 in 1938, $2.06 the preceding year, a peak of $2.69 in 1936 and a low of 68 cents in 1929. Earnings of the other two leading snuff producers, G. W. Helme and American Snuff, have likewise been marked by their stability and by little or no correlation with general business conditions for the country as a whole. Both have been more stable dividend payers than their larger competitor, however; American has paid $3.25 each year for the past eight years and Helme has been paying $7 annually over an even longer period as well as a substantial extra in 1935 which brought total distributions for that year to $11.75.

Such variations as occur in the consumption of snuff can be traced to fluctuations in purchasing power in the South which is the principal market for the product and whose prosperity is primarily dependent on the fortunes of cotton and other southern agricultural products. Profits tend to vary with physical sales volume as costs, and selling prices are subject to little change; contrary to the case of the cigarette manufacturers, the snuff makers spend little on advertising as it has been found that neither total consumption nor relative brand preferences can be appreciably influenced by means of promotion efforts. Aside from volume, the most important factor governing earnings is the return received on security investments.

With regard to the question of the most attractive issues in each principal division of the tobacco industry, Philip Morris would appear to stand out among the cigarette companies even though its gains from here on may be somewhat more gradual than in recent years; American Tobacco also has appeal among the larger and better established concerns in view of its recent competitive gains, though the prospective reopening of a case tried before Judge Manton in which the company was a successful litigant adds some uncertainty to the current picture. Of the snuff companies, Helme and American are about a stand off from an investment point of view though the latter would seem to have the edge in that the former has failed to earn its $7 dividend in each of the past four years.

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